UNIVERSITY OF PENNSYLVANIA

FINANCIAL CONTROL IN THE STATES WITH EMPHASIS ON CONTROL BY THE GOVERNOR

BY

HARRY ALDIN BARTH

A THESIS

PRESENTED TO THE FACULTY OF THE GRADUATE SCHOOL IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

PHILADELPHIA
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To
My Mother

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HARRY ALDIN BARTH

PREFACE

The material for this thesis was secured in planning a scheme for control for the Commonwealth of Pennsylvania. The *Committee on the Finances of the Commonwealth of Pennsylvania* appointed by Governor Pinchot in the spring of 1922 looked upon the adoption of a system of control as essential to better administration, and it was in co-operation with this committee that the system described here was outlined for the commonwealth.

To Mr. Henry Seidemann of the Institute for Government Research at Washington, to Mr. William McLain, Superintendent of the Budget for Illinois, and to Mr. W. Albert Davis, Director of Finance of Ohio, I am deeply indebted for valuable suggestions. To Dr. Clyde L. King, Secretary of the Commonwealth of Pennsylvania and sometime Professor of Public Finance at the University of Pennsylvania, I am especially indebted.

HARRY ALDIN BARTH.

Philadelphia, March 5, 1923.

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Financial Control in the States with Emphasis on Control by the Governor

INTRODUCTION

With the recent change in the work of the state—a change which has transformed the state from a simple institution with the sole duty of keeping the peace to a complex organization with the function of looking after the general welfare of the entire citizenry—the question of honesty or corruption and of efficient or lackadaisical management has become of surpassing importance. It made little difference eighty years ago, when the state had very little to do except prevent internecine warfare, whether all the taxes were returned to the taxpayers in the form of services. This is no longer the case. The monetary cost of inefficiency and dishonesty is great. The cost to society through maladministration of necessary legislation is infinitely greater. Government must become efficient and respond to changed social needs. This discussion of recent developments in financial control in the states considers one phase of the larger movement to better governmental service. It is, therefore, of value.

Two objects guided the choice of material. One was to describe the work now being undertaken to provide iron-clad systems of centralized financial control. The other was to outline suggestions for a model controlling scheme—for a scheme which would tend directly toward raising standards of administration and directly contribute toward enabling the state governments to carry the burdens of increased activities.

In general, financial control is exercised whenever one governmental organization exerts pressure of any type or supervises in any way the other organizations. This control may be of two types: Supervision of financial policies, and supervision of routine spending.

Control over policy is obtained through the budget. Control over routine expenditures is obtained through approval of all purchases, of services as well as materials. Control over policy is, of course, exerted by the governor and the legislature. Control over routine expenditures is exerted by the governor, by

the auditor, or by an administrative board. Control over expenditures may mean merely testing the legality of claims against the state. It may mean, on the other hand, testing both the legality and the necessity of expenditures. It may mean anything, from mere voucher approval to a highly developed system of expenditure schedules and monthly expenditure reports as outlined near the close of this thesis.[1]

Neither the study made in control through the budget,[2] nor in control through supervision of routine expenditures,[3] is complete. However, a great number of investigations have been made to determine the relation which should exist between the governor and the officers who make the budget and the governor and the legislature. Furthermore, budgetary legislation has been thoroughly described and criticized.[4]

There was no necessity, therefore, to consider these matters and as a result the study of budgetary control is limited to an investigation into the actual procedure used in preparing a budget. Apparatus and machinery—forms and instructions, rather than theoretical considerations—form the major part of this portion of the thesis.

Routine control is taken up in a more complete manner. A study is made of the laws, of theoretical considerations regarding the proper official in whom supervisory powers are best vested, and of the machinery—of the forms and procedure. The study of the subject, however, does not include more than brief consideration of the control exercised by the average state auditor in determining the legality of expenditures. Chief stress is laid on the newer types of control—control which implies much more than mere voucher approval.

The material is presented in the following sequence. First is given a study in the methods used to gather financial information. Next appears the study in budgetary apparatus. Last is presented the study in routine fiscal supervision.

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[1] See pp. 74–114.

[2] See the second part, pp. 45–73.

[3] See the third pp. 74–114.

[4] See, for example, Willoughby, *Movement for Budgetary Reform in the States*, or Cleveland and Buck, *The Budget and Responsible Government.*

Possibly the movement for centralized fiscal control, even though successful in introducing control, will be sterile of administrative betterment. It is difficult at the present time—when the movement is in full swing—to attempt an evaluation. Evidence is almost entirely *ex parte* and consists of opinion rather than of concrete proof in the form of money saved. On the other hand, the movement is based on what appears to be a valid theoretical assumption—*that centralized supervision is essential to good administration.*

Though sufficient time has not elapsed for conclusive tests of an empirical nature, certainly, it is not bordering too closely on the impossible to state that in the systems of control, we have planted the roots of institutions which may eventually allow us to attain that goal of democratic administration—a business efficiency in public places.

I

Classifying the Expenditures

The first problem confronting an administrator investigating the finances of a state is the fact that any figures regarding the expenditures of a group of departments, boards and commissions are of little value unless the expense vouchers have been classified according to a definite scheme. More than mere totals are necessary before the figures hold any meaning. The figures must be broken up into the chief items of expenditure before they yield the information which an executive desires.

No real budget may be drawn before the expenditure figures have been analyzed according to a uniform classification. Without such a classification no true idea as to the need which the departments have for funds can be had. Without it, the necessary expenditures act as a screen for the unnecessary. Assume that a department received a hundred thousand dollars to carry on its routine operation. At the end of the appropriation period it reports that it has used the entire sum. The department has been efficiently operated except in so far as its travel account was concerned. This amounted to twenty thousand—twice what it should have been. Classification according to a uniform method—where all questions of confusion in terminology had been settled by the adoption of uniform definition—would reveal the excessive travel cost at once. Similar illustrations of the necessity for classification may be drawn without end. For intelligent budget making and intelligent routine administration, the intimate knowledge which a uniform classification supplies is necessary.

A chief reason for classification in a uniform manner is the need for the production of comparable figures. The work of most departments is, of course, non-comparable. Therefore, no real basis exists for comparing figures of expenditures. This is not altogether true as the work of certain bureaus in departments may readily be compared. The accounting bureaus, for example, may very easily be compared. Moreover, a standard

terminology should be provided in order that all requests for appropriations may be interpreted in a uniform language. Unless this is done confusion in considering requests will result. The exact nature of requests must be known or no real consideration can be given.

From the viewpoint of the accountants employed to audit the books of the spending agencies, a uniform classification is equally of value and for much the same reasons. For the periodic reports to the governor regarding the progress of expenditures—and this is an essential feature of financial control —uniformity is likewise essential. From almost every consideration the adoption of standard expenditure accounts applicable to all the spending agencies is a distinct need.

Progress of the Movement for Uniform Account Classification

At least thirteen states have adopted uniform classification of expenditure by objects and require their use by the spending agencies. These include Virginia, Indiana, Wyoming, New York, Illinois, Arizona, Utah, Nebraska, Idaho, Massachusetts, Ohio, South Carolina and Pennsylvania. The adoption of classifications in these states is very recent. The state of Ohio adopted a classification in 1913.[1] The Illinois classification goes back to 1917,[2] and the Virginia to 1919.[3] The rest were prepared in making either the budget of 1921 or 1923.[4]

Certain of these classifications are similar. The Virginia, Indiana and Wyoming classifications are similar. The Arizona, Illinois and Utah are in the main the same. The other classifications contain no distinct marks of similarity. The Idaho classification is the only one which uses the classification pre-

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[1] Ohio, *Report of Auditor of State*, 1919.

[2] Illinois, *Laws, 1917*, pp. 2–36.

[3] Virginia, *Classifications and Instructions for the Preparation of Budget Estimates, 1920–1922*, 1919.

[4] Idaho, *Standard Classifications of Expenditures*, 1920; Nebraska, *Classifications of Expenditures*, 1921–1923; Arizona, *Book of Instructions for Classification of Expenditures*, 1921; Indiana, *Budget Classifications for Indiana*, 1922; Wyoming, *Classifications and Instructions for the Preparation of Budget Estimates*, 1922; Pennsylvania, *Budget Classification and Methods of Procedure*, 1922; Utah, *Report of the Department of Finance and Purchase*, 1923. See also budget blanks of New York and Massachusetts for 1923.

pared for the Federal Government by the Taft Commission on Economy and Efficiency as its basis.

General Considerations

Every state has essentially the same problem. Accountants everywhere are dealing with public organizations buying great numbers of services and articles. The different types of things purchased run well into the thousands. The problem before the accountants is to classify the multitudinous varieties of expenditures into a few groups so that an executive will be able to grasp the meaning—the exact content of expenditure figures. The problem is, therefore, one of analyzing the things purchased to determine points of similarity and of grouping. It is also one of presentation. How may the information regarding things purchased be best presented to a busy executive or legislator?

The following points are essential to any real classification:[5]

1. The classification should contain a minimum of "twilight zones."
2. The classification should be designed to furnish in a conspicuous manner information regarding items for which illegal expenditures are the rule.
3. The classification should have a minimum of details.
4. The classification should be as free from technical accounting terminology as the necessity for exactness in definition will allow.

"Twilight Zones"

The chief objection to most classifications is that it is extremely difficult to determine just where one account ends and another begins. In effect, the line of demarcation between the accounts is not definite and two able accountants may reach opposite conclusions regarding the classification of an expense voucher and both may have good reasons for classifying as they did.

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[5] These conclusions are based on a study of the defects in the several classifications now in use. Detailed documentary justification for the conclusions appears in the remainder of the chapter, *in loco*.

In the actual operation of an accounting system such a condition of affairs is a great hindrance. The existence of these zones where no uniform classification of expenditures is possible may cause disuniformity to exist instead of uniformity.

These zones arise because in theory a real separation may exist between articles and yet in practice it may be impossible to differentiate between the groups. One very annoying "twilight zone" is that existing between materials and supplies.[6] By abstract reasoning a real difference may be distinguished between these groups of commodities. Theoretically materials may be defined to include all articles capable of use in but one operation and which add to the capital outlay of the state. Supplies may be defined to include all articles capable of use in but one operation and which, through use, are destroyed or materially lessened in value and do not add to the capital outlay of the state.[7] Practical difficulties arise in applying these definitions. Lime, for example, if used in construction work is a material, but if used on a farm in connection with current operations is a supply. Paint might be considered as either. Difficulty is experienced in placing seeds in their proper category. These are typical of the questions which arise.

Certainly no one of these questions is important and it does not make any enormous difference whether a material is called a supply in one case or *vice versa*. But in the aggregate such problems are important. For it is just questions such as these which clog the machinery of an accounting system and prevent smooth operation. In Illinois, records of expenditures are kept by both the division and a central accounting office. This allows for classification by two accountants. Considerable difficulty has arisen because of the disputes which the existence of "twilight zones" allow to arise.

As far as possible accounts should be either so clearly defined as to make the exact meaning of each certain or else accounts which may be misinterpreted should be combined. In the case of materials and supplies, the "twilight zone" has been

[6] See Wyoming, *Classifications and Instructions for the Preparation of Budget Estimates*, 1922, pp. 9, 11.

[7] See Buck, *Budget Making*, p. 53.

removed in several states—among these Pennsylvania and Illinois—by simply combining them. The line between equipment and materials and supplies causes difficulty. The usual definition of equipment is that it is tangible chattel property which may be used repeatedly in an operation without material depreciation.[8] No question arises under this definition as to where a typewriter should be charged. Some difficulty might be experienced in charging typewriter ribbons. Leather belting for machines has caused trouble. Text-books, batteries, spark-plugs, rims, pumps, small tools, test-tubes and tires are examples of articles with a certain degree of permanence of life. How to classify these uniformly is an annoying problem.

Another very prolific source of dissimilarity lies in determining the line of demarcation between repairs and equipment. In Illinois, where a system of classification has been in use longer than in most of the other states, the task of segregating expenses for repairs and for betterments to equipment became so impossible that at the present time no attempt is made to segregate. The practice of combining repairs and equipment, of course, violates accounting theory, as it causes current operation and capital outlay problems to be confused. The practice is defended on the ground that in a public enterprise it does not make any difference whether the book value of equipment is inflated or not. A question of profit and loss does not enter into public associations. Neither does the problem of capitalization. Furthermore, the book value is seldom the real value of equipment. Actual valuation by evaluation experts is necessary before the total assets of the state may be determined.

Where combination of accounts is not desirable, the definitions of the conflicting accounts should be made clear even if arbitrary. For example, the Reorganization Commission of Pennsylvania, in attempting to clarify the terms "materials and supplies" and "equipment" simply stated arbitrarily that articles of a life of more than one year should be considered equipment and of less, materials and supplies.[9]

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[8] See, for example, Ohio, *Budget Classifications and Methods of Procedure*, 1922, p. 14.

[9] Pennsylvania Reorganization Commission's budget estimate blanks, 1923–1925.

A more usual practice is to print a list of commodities with the usual classification. This has been done in some of the states, and aids materially in securing uniform treatment of expenditure vouchers by unassociated accountants.

The lists of Ohio and Illinois, though very inadequate, are the most complete lists yet issued by states. These are especially valuable for institutions. The list of the city of Rochester is a far better example of what a list should be.

Illegal Expenditures

In certain fields of expenditure, thievery is more rampant than in others. Conspicuous place should be given to objects of expenditure in which dishonesty is general. Information of this nature should not be carefully hidden behind legitimate expenditures.

Expenditures for travel should be made a primary account. There is a tendency among the states to place traveling expenses as a subsidiary account under some vague term, as "Contractual Services," or "Contract and Open Order Service." The first term is used in Virginia, Indiana and Wyoming. The second is used in Ohio. In Idaho the term "Services other than personal" is used. This practice is questionable. The chief place where these accounts are examined is in reports, and the chief report is the budget. In the scurry of a session only the obvious points come to a legislator's attention. The total for traveling expenses is printed in the budgets of the states where travel is made a sub-head under a generic term of one sort or another. But the total is not given in a conspicuous place. The better plan is to follow Illinois procedure and set up travel as a main head where it will be perfectly visible to even a hurried legislator. The size of the traveling account and the ease with which it is misused require that the amounts spent should be placed in an obvious position.

Another account, which should be placed where it will attract attention, is the newspaper advertising item. The sums spent for the publication of notices of elections, of proposed constitutional amendments, of bids for contracts, of amounts in the State Treasury are great in many states. Moreover, they are

used to control the press. A judicious distribution of advertising contracts has turned the tide on many a stricken field. The nature of the expenditure is such as to demand constant supervision by the governor and the legislature. In a plan for real administrative and financial control such as will be developed in this thesis, it is necessary that an expenditure of this nature be constantly brought to the fore.

Another example is expenditures for rent. In Pennsylvania expenditures for rent are abnormally high.[10] This fact is one which should be carefully investigated by the legislature. Wherever the item for rent is large, a separate major account might well be given to this expenditure, so as to attract a maximum of investigation and examination.

Stationery and printing bills often are rather large, and at times far too high. After a recent change in the party in power in Missouri the bill for printing was cut in two. Abuse is extremely easy in this field. Totals of costs for this purpose should be given an outstanding place in any financial report.

Details

The extent to which the classification should be detailed varies with the service which it is to perform. For cost accounting purposes it should naturally be more detailed than if it is to be used only as the basis of the budget and of reports to the executive. If an executive wishes to compare the costs of several institutions, the classification of expenditures must be carried to a fair distance and the segregation must be rather well itemized.

Certainly no more should be included in the reports to the executive and the legislature than can be grasped by the men who read the report. The classification of expenditures ought not to be carried to such a point in detail that the men reading lose themselves in the maze. With the average legislator and executive, the saturation point is reached early. Just where the point at which there is no further absorption comes has not been determined. Surely though, it cannot be much farther than the interest of the legislator in what he is reading goes.

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[10] For example, see *Philadelphia Public Ledger*, January 26, 1923.

This much is certain: no more ought to be given to an executive or legislator than is absolutely essential. Information regarding expenditures which does not help in giving an idea as to the efficiency or honesty of a spending agency should be excluded. Nothing should be presented to the executive or the legislator which has not a real reason for being given. The reason for insisting on culling detail from a classification will become clearer if several classifications are examined.

The standard classification of the state of Idaho[11] contains twelve major accounts, eighty sub-accounts and three hundred and forty-four accounts under these sub-accounts, besides quite a few accounts under these. This classification was taken with virtually no change from the classification of the Taft Committee on Efficiency and Economy, prepared for the Federal Government.[12]

To illustrate the intensity of the Idaho classification, the following excerpt is given:

D3 mechanics', engineers', and electricians' supplies; furnace and foundry supplies:

1. Lubricants:

   Oils (animal)—Fish and lard oil; neat's foot oil; porpoise, sperm and whale oil.

   Oils (vegetable)—Olive oil, nut oil, castor oil, cottonseed oil, linseed oil.

   Oils (mineral)—Machine, cylinder, engine, dynamo, etc.

   Greases and paste (not compound)—Axle grease, vaseline, lubricating candles, tallow, etc.

   Dry lubricants—Graphite, talc, mica, etc.

   Compound lubricants (including cutting compounds and oils, and belt dressings).

2. Packing, calking, and gaskets:

   Asbestos and composition packing and calking.

   Rubber and composition packing and calking.

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[11] Idaho, *Standard Classification of Expenditures*, 1920.

[12] This classification was materially modified when finally adopted for the Federal Government in May, 1922. See United States "Classification of Objects of Expenditure," in General Accounting Office, *Bulletin No. 1*, May 11, 1922. Only eighty accounts were made compulsory on the various spending agencies.

Leather packing and calking.
Vegetable (other than rubber, packing and calking)—Fiber, cotton, wool, flax, hemp, oakum, gum.
Gaskets and brommets.

3. Polishing and abrading supplies:
   Sands and powders.
   Papers, coated.
   Pastes—Carborundum composition, chalk composition, etc.
   Liquids.
   Grinding wheels.
   Grinding shapes.
   Buffs and belts—Leather, cloth and silk buffs, belts, felting, gloves.
4. Waste and wipers.
5. Electricians' and lighting supplies (not otherwise classified):
   Dry batteries, wet batteries, battery renewals, carbons.
   Electric light bulbs, minor gas lighting supplies, minor electric lighting supplies.
   Varnish cloth, insulating cloth and tape.
   Liquid for coloring electric lamps.
6. Furnace and foundry supplies:
   Bone ash, charcoal, sand, fluxes, blacking, facings.
   Furnace cement and fire clay, core compounds.
7. Supplies used in the applied arts (consumed in use but not components of a finished article):
   Soldering and welding pastes and alum.
   Engraving and lithographing plates.
   Brushes (excluding cleaning, mucilage and paste brushes)—Paint and varnish brushes; kalsomining, whitewashing brushes. Stippling, surfacing and paper-hanging brushes. Glue, printers' and engravers' brushes.
8. Refrigeration supplies.
9. Other mechanics' supplies.

This excerpt is typical of the whole scheme. If carried into a budget, the classification would necessitate an enormous book, while the information would be of little aid to the legislature or the executive. For to a legislator, it makes no difference whether lubricants or packing, abrading supplies or wipers, lighting supplies or refrigeration supplies were the articles for which expenditures were made. He cannot investigate minute

expenditures. The most he can do is determine whether too much has been spent for the general class of commodities—materials and supplies. And it is doubtful whether he can even determine this successfully.

For example, he may compare institutional totals for general types of commodities in order to determine whether an institution deserves an increased appropriation. He may conceivably compare totals for supplies, for equipment, for personal service. He certainly cannot dig under the surface in order to determine whether it was lubricating oil or gaskets which caused an excess expenditure. Assuming that a legislator or even an executive had the patience to wade through expenditure figures produced by a classification of the Idaho type, the only tangible result would be the consciousness of duty done and a headache. Such detailed information is neither absorbed nor does it furnish a basis for criticism of a spending agency's work.

The state of Wyoming has a very modest classification compared to that of Idaho. It contains just nine major accounts and sixty-three minor, all of which are carried into the budget. As a result, the part of the budget of the state penitentiary dealing with equipment has the following appearance:

E-1.	Office equipment	367.30
E-2.	Dishes	148.12
E-3.	Beds, mattresses, blankets, bed and table linen	1,254.71
E-4.	Furniture	18.33
E-5.	Hardware and kitchen utensils	195.35
E-7.	Medical and surgical equipment	94.50
E-10.	Livestock	11.60
E-12.	Motor vehicles	
E-13.	Laundry equipment	
E-14.	Tailor shop	30.00
E-14.	Band equipment	14.43
E-14.	Library equipment	40.00
E-14.	Guns	[13] 98.60

From the utilitarian point of view the value of even as mild a type of detail as indicated by this is doubtful. How is a legis-

[13] Wyoming, *State Budget*, 1921–1923, p. 118.

lator or executive aided by the knowledge which this sheet conveys regarding the state penitentiary? He knows, of course, that dishes in a certain period cost $148.12 and that $18.33 was spent for furniture. But it does not aid him in making an appropriation or in determining the honesty of the wardens. The total sum spent for equipment may have some meaning. Certainly a highly detailed statement is useless.

In certain fields of expenditure greater detail is necessary than in others. More detail is needed for the materials and supplies account than for the travel or repairs. More is required in salaries and wages than in equipment. Furthermore, greater detail may be required for the experts making the budget and for executives than is necessary for the legislators. The budget estimate sheets should contain a more highly classified expenditure report than should the budget. The reason for this is that the budget experts will have more time and inclination to investigate expenditures than the legislators, who cannot be expected to do more than approve or reject a proposed expenditure plan. The accounting classification may well consist of two groups—a major for the legislature with a minor to be used by the accounting officials in preparing the expenditure report for the budget experts.[14]

In determining upon a classification, the wishes of the legislators must naturally be taken into consideration. But not their wishes alone. For if the average legislator were consulted he would probably demand that so detailed a classification be adopted that a special class would be provided for every expense voucher.[15] It is of the nature of legislators to be suspicious and questioning. As a result, they constantly demand information which no one is capable of using and which is merely printed and then forgotten. On the other hand the legislature should not be completely overlooked. Legislators desire, in most cases, to attach strings to appropriations.[16] When figures

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[14] This is in accord with Pennsylvania practice. See the budget estimate blanks of Pennsylvania for the period 1923–1925. See also the budget of Pennsylvania for the same period.

[15] See attitude of several Pennsylvanian legislators as expressed in the *Philadelphia Public Ledger*, February 7, 1923.

[16] For good illustrations of this tendency see Texas, *General Laws*, 1st Session, 1921, pp. 273–367; South Dakota, *Session Laws*, 1921, pp. 148–156; Mississippi, *Laws*, 1922, pp. 1–8.

over a period of years show the trend of expenditures for materials and services, there is no real objection to an "ear-marked" appropriation scheme. Especially is this true when a safety valve is provided by the grant of authority to the governor to rearrange appropriations in an emergency. The classifications should be adapted to this justifiable desire. This principle is one of those by which a proposed classification will be judged.

Mr. William McLain, Superintendent of the Budget in Illinois, advances another consideration tending to make one hesitant about adopting a detailed system of accounts. In practice it has been found in Illinois that the result of many accounts is to increase requests and appropriations. This rises from the antipathy of department heads to request uneven sums. Though the expenditures in a year may have been only $212 for a certain purpose, the request is made for an even sum, $300. The existence of many accounts aggravates this evil, which is instrumental in causing the Illinois Department of Finance to decrease the number of accounts from year to year.

Freedom from Technical Terminology

Any profession develops a technical terminology, and the members of the accounting profession have not violated the traditional and customary practice. A technical terminology almost inevitably arises from the necessity for exactness of definition. Often it arises from a half conscious desire to make many of the ideas and practices esoteric. Certainly the result of using technical expressions in accounting has been to mystify and confuse the unenlightened.

Any technical expressions in a report to men who are without the pale should be carefully eliminated. Most members of the legislature, as well as many of the persons in executive positions in government, have but a passing knowledge of accounting. To use technical terms in explaining the fiscal situation in a state serves to confuse rather than explain. So far as possible words of every-day use should be placed in a budget or any report of a popular nature.

A common practice is to place all services done by persons not under the direct employ of the state using material not

owned by the state, under the caption "Services Other Than Personal," or "Contractual Services."[17] To an accountant versed in government accounting, these expressions have a definite meaning. But an outsider cannot possibly know that anything from travel to repairs by a garageman may be included here. Another annoying term is "Fixed Charges, State Grants and Contributions."[18] A layman cannot know that the unimportant looking phrase, "Fixed Charges," includes the payments on the state debt, payments of interest, of rent and of insurance. Neither can he know that a "State Grant and Contribution" is a payment made by the state to a lesser political division of the state—city, county, township—or to a private charitable or scientific society for performing part of the work of the state. The concept included in the expression "Rotary Fund"[19] might also be clarified to a layman through the use of, possibly, a longer but nevertheless a more intelligible expression.

These, then, are the main considerations regarding the making of a usable classification of expenditures by object. "Twilight zones" should be avoided, conspicuous place should be given to expenditure items which are often tainted with dishonesty, care should be taken to prevent the framing of a too detailed classification, and technical phraseology should be eliminated.

A Proposed Classification

The following classification has been designed to embody the considerations outlined in the preceding pages. The accounts designated by letter are the major accounts. Those designated by number are the minor.

Classifications of Expenditures by Object.

(*a*) Salaries and wages:

1. Permanent.
2. Temporary.

[17] For the first, see Virginia, *Classifications and Instructions for the Preparation of Budget Estimates*, 1920–1922, p. 5. For the second, see Idaho, *Standard Classification of Expenditures*, p. 8.

[18] For example, see Wyoming, *Classifications and Instructions for the Preparation of Budget Estimates*, p. 7.

[19] For example, see Ohio, *Budget Classification and Rules of Procedure*, p. 8.

(*b*) Materials and supplies:
1. Office supplies.
2. Motor supplies.
3. Food.
4. Fuel.
5. Clothing.
6. Experimental supplies.
7. Building and highway materials and supplies.
8. Other materials and supplies.

(*c*) Traveling expenses:
1. Transportation.
2. Hotel and restaurant expenses.

(*d*) Postage, telephone and express:
1. Postage.
2. Telephone and telegraph.
3. Freight, express and cartage.

(*e*) Printing and binding:
1. Paper, printing and binding for reports and books.
2. Paper, printing and binding for forms.
3. Stationery.

(*f*) Rent.

(*g*) Repairs under contract:
1. Motor vehicle repairs.
2. Building and highway repairs.
3. Other repairs.

(*h*) Newspaper advertising.

(*k*) Light, power and water.

(*l*) Subsidies (specify).

(*m*) Equipment:
1. Office equipment.
2. Motor vehicles.
3. Other equipment.

(*n*) Lands and buildings and construction under contract:
1. Lands.
2. Buildings and construction under contract.

(*o*) Other items:
1. Insurance.
2. Interest.
3. Payments on debt.
4. Pensions.
5. All other.

Definitions and Instructions for the Classifications.

(*a*) Salaries and wages include all payments made to persons directly in the employ of the state.
1. Permanent—include under this heading all positions with a continuous tenure on good behavior.
2. Temporary—include under this heading all payments to persons for work of a duration of a fraction of a year. Under this heading fall such expenditures as lecturers' fees, analysis fees, referee fees and day labor wages.

(*b*) Materials and supplies are articles which are either consumed or changed in form after being used once.
1. Office supplies include all articles consumed in clerical, stenographic and executive work. Examples are blank books, carbon paper, clips, envelopes, ink, mucilage, pads, pens, pencils and paste.
2. Motor supplies include all materials and supplies used in keeping a motor vehicle in operation and in good condition. Include gasoline, oil, cup grease and parts—when the parts are used by a state employee in repairing the car. If repairs are done under contract, charge (*g*) 1, Motor repairs.
3. Food includes all articles used in sustaining persons. Livestock purchased for slaughter is included. Medicine is not included, but charged to (*b*) 8, Other materials and supplies.

4. Fuel includes all articles used to provide heat. Coal, gas, oil, when used for fuel, and wood are included.
5. Clothing includes all wearing apparel or material to be manufactured into wearing apparel. Sewing supplies—pins, needles, thimbles, thread—are included.
6. Experimental supplies include all agricultural and scientific supplies used in developing new industrial, agricultural and medical processes.
7. Building and highway material and supplies include articles used in creating structural and non-structural improvement to land. This account should be charged only when the construction or repair work is done by the state directly. When this work is done under contract, charge the expenditure to (*g*) 2, Building and highway repairs, or to (*n*) 2, Building and construction under contract.
8. Other materials and supplies include all articles not chargeable elsewhere.

(*c*) Traveling expenses include expenditures entailed in transporting either employees or dependents of the state from one point to another and in sustaining them while enroute.

1. Transportation. Under this include all transportation fares and Pullman fares and automobile mileage.
2. Hotel and restaurant expenses include all expenditures for lodging and for food. Include dining-car expenses.

(*d*) Postage, telephone and express includes the cost of transporting articles and of sending messages.

(*e*) Printing and binding includes expenditures for printed matter made specially for the state. Stock forms and blanks are charged to (*b*) 1, Office supplies.

1. Paper, printing and binding for reports and books includes all expenditures incidental to the publication of the formal reports of the several spending agencies.
2. Paper, printing and binding for forms includes the expenditures for the printing of special accounting and administrative forms.

3. Stationery includes letter heads and envelopes.

(*f*) Rent includes all charges for the rental of property or equipment.

(*g*) Repairs done under contract includes charges for repairs when done by private firms under an expressed or implied contract.

1. Motor repairs includes all repairs to motor vehicles.
2. Building and highway repairs includes repairs to all structural and non-structural improvements to land.

(*h*) Newspaper advertising includes all advertising in the press. Included are the publication of election notices, of bids, of constitutional amendments and of the amount in the treasury.

(*k*) Light, power and water. Under this heading include all expenditures for these articles when purchased under contract from outside agents. When these articles are provided through a state operated light and power or water plant, segregate the costs to the accounts (*a*) Salaries and wages, and (*b*) Materials and supplies.

(*l*) Subsidies (specify). A subsidy is a payment by the state to a local division of the state—county, township, school district—to a private charitable or educational society or to county agricultural associations. After the word "Subsidies" in parentheses appears the word "specify." This means that the type of subsidy must be given in reports when the expenditures for subsidies are given. Thus, a subsidy to school districts must appear as "School district subsidy."

(*m*) Equipment includes all articles of a life of over one year and which may be repeatedly used in an operation without material change in form.

1. Office equipment includes all equipment used in clerical, stenographic, accounting and executive work. Typewriters, adding machines, check protectors and multigraphs are examples of office equipment.
2. Motor vehicles includes automobiles and trucks. Place motor agricultural equipment and tractors, steam rollers and other highway equipment under (*m*) 3 Other equipment.

(*n*) Lands, and buildings and construction under contract, are explained below.

1. Lands. Under this heading include all expenditures for the acquisition of real estate whether obtained by purchase or condemnation and expenses necessarily incidental to such purchase and condemnation not chargeable elsewhere.
2. Buildings and construction. Under this heading include all expenditures for buildings or additions to buildings and for highways and for other structural and nonstructural improvement to land when acquired by purchase or constructed by a private firm under contract. When constructed directly by the state charge (*a*) Salaries and wages, and (*b*) Materials and supplies.

(*o*) Other items.

1. Insurance. Under this heading include all expenditures for the insurance of property or funds. Include all expenditures for the bonding of state officials.
2. Interest includes all payments for the use of borrowed money.
3. Payments on the state debt is self-explanatory.
4. Pensions. Under this heading group al payments to persons injured on duty or retired from the service through old age.

This classification has been designed to furnish the information which the legislature and executives desire. In the expenditure reports to the legislature only the major accounts are to be used. These include about the type of information suitable for perusal by laymen who are busy with an avalanche of diverse duties. The minor accounts have been designed to furnish the more intimate knowledge which the executives and the experts need.

For some purposes, possibly a more detailed classification would be desired. Such a classification may readily be designed by simply breaking up the minor classifications. For example, an executive controlling a group of hospitals would want the account (*b*) 6, Institutional supplies, broken down

considerably. But to provide a group of accounts for a cost-accounting system is beyond the scope of this discussion which deals primarily with an accounting machinery adaptable to financial and administrative control from a central supervising agency.

This classification includes thirteen major accounts and thirty-one minor. It contains a greater number of major accounts than the classifications adopted in most states but the minor accounts are considerably fewer. For example, Ohio has eight major and forty-six minor, Arizona five major but fifty-four minor, Illinois eight major and ninety-two minor, Indiana seven major and forty-three minor, Wyoming nine major and sixty-three minor and Virginia ten major and forty-seven minor. The Pennsylvania classification is almost identical with the one proposed here.[20]

The reason for the greater number of major accounts is that in the major division all items which the legislature is to see have been grouped. The state classifications are printed in their entirety in the budget. This classification therefore decreases the number of items to be presented to the legislature from around seventy-five to thirteen. It therefore differs radically from the usual classification. This is in accordance with the principle laid down in considering the general aspects of this problem.

Publication of merely the major accounts is in accord with practice in both Utah and Pennsylvania. In the Utah budget for the years 1923 and 1924 only the seven major accounts are given. In the Pennsylvania budget for the same year only thirteen major accounts are printed.

The minor accounts are less detailed than is the usual practice. This decrease exists because every account in the state classifications has been subjected to a utilitarian test. Only accounts of absolute value were included in this proposed classification.

Most of the spending agencies will not keep all the accounts. Many will not have to keep half of them. The expenditures of most agencies are limited within a small scope. The regular

[20] See preface.

business departments will keep record of salaries and wages, of the first three accounts under materials and supplies, of traveling expenses, of postage, of printing, and of equipment. Institutions need keep salaries and wages, from the second to the sixth accounts under materials and supplies, repairs, equipment, and land, buildings and construction, together with a few of the others. The bookkeeping work has been made as simple as is reasonably possible.

The first of the accounts, Salaries and wages, is essential. Provision has been made for two minor accounts—permanent and temporary. The majority of the classifications now in use make this distinction.[21] There is a certain value in differentiating between amounts spent for regular and temporary employees. From this information an officer of a controlling agency can often learn something as to the administrative ability of a department head. There is usually a distinct relation existing between the type of work and the need for extra help. A good administrator will usually keep his regular force to a minimum and call on temporary assistance in periods of added work. Depending on the type of work, a good administrator will prevent the need for extra assistance by distributing the work wisely. In any case the distinction between expenditures for temporary and regular personal service is of value.

The account, Materials and supplies, is employed in most of the states. Where this account is not used, materials and supplies are set up separately. In New York materials and supplies and equipment are lumped.[22] This has the advantage of cutting out the "twilight zone" between materials and supplies and equipment. There are certain objections. Equipment is distinctly a capital outlay while materials and supplies are usually used in current operation. This objection is of more importance from the viewpoint of theoretical than practical accounting. The real objection against combining the two is that the purchase of material and supplies is far more imperative than the purchase of equipment. The acquisition of equipment in

[21] See, for example, Nebraska, *Classification of Expenditures*, 1921–1923, p. 19.
[22] See budget estimate blanks of New York for 1923–1925.

times of low income and general financial stress can be delayed. The purchase of materials and supplies must go on constantly. Therefore, in a budget the two types of articles should be shown separately. It is this reason which prevented this classification from following the New York practice.

The minor classifications under Materials and supplies number eight. Several considerations governed the adoption of these accounts. Important groups, it was felt, should be segregated out from the rest. Furthermore, expenditures where comparisons were readily possible should be segregated. No group should be provided where only one or two spending agencies would use it and where the nature of the materials and supplies purchased by the agents would be clear from the work performed. A department for fisheries would use, for the most part, supplies having to do with a special activity—hatcheries. Therefore, in this case, an amount after the ninth account, Other materials and supplies, is intelligible and a special division for this special activity is unnecessary.

The first minor account, Office supplies, hardly needs discussion. The amounts spent by various agencies furnish a ready guide as to the general efficiency of the agency, and virtually every agency has expenditures of this nature. Motor supplies, food and forage, fuel and clothing need no justification for being set up separately. Their importance, the readiness with which notions as to general efficiency may be gleaned by comparing the per capita cost of institutions and their general use, makes a separate classification advisable as an aid to the experts who make the budget and those who supervise the institutions. The advisability of setting up Experimental supplies as a separate heading is not as definitely certain. Possibly it might be well to charge such supplies to the miscellaneous account, (*b*) 8. These are used, however, quite generally —much of the work of the state is to determine new processes —and a separate account has, therefore, been created. Building and highway materials and supplies are of sufficient importance to warrant separate treatment. No need is believed to exist for separate accounts for building and for highway materials and supplies. The highway department uses highway

material and the various institutions use building material. No confusion will exist because of the combination of these diverse articles in one heading.

Other materials and supplies, is designed to serve a real purpose. The more important items of expenditure have been set up separately. Certain fairly important ones have not. These deal with special activities. All the important items of hospitals have been set up except medical and hospital supplies. A sum under (*b*) 8 will naturally be for this object. Normal schools will use this account for their special activity supplies, and, therefore, a sum listed here will be for books and other educational supplies. The special activities of the various agencies will necessarily cause a real segregation of objects of expenditure through the use of the Other materials and supplies account.

Account (*c*), Traveling expenses, is set up as a major account because of the universal tendency to spend more for this purpose than is actually necessary. Setting up this account in the major division will cause it to be brought before the attention of the legislature. Placing it third among the accounts will cause it to be prominently brought to their attention. For the budget experts and executives, two subdivisions are provided. There is a valid distinction between expenses for actual transportation and expenses for subsistence. The first is deserving of much paring in many states. The second is deserving of a real slashing, virtually everywhere. In the state of Illinois, after the controlling system to be described in this thesis was installed, traveling expenses tumbled almost 50 per cent.

Postage, telephone, and express includes two items which are inordinately high. Postage is high because postage stamps are readily portable and are unquestionably desirable. Telephone and telegraph expenses are high because the mails are not used for purposes of communication whenever possible. The budget and efficiency experts receive statements of the actual amounts spent for postage, telephone and telegraph, and for express and cartage, through the minor accounts. The legislature receives as much information as the average legis-

lator can use from the major heading. The Appropriation Committees may receive exact expenditures from the budget estimate sheets for each of the minor items.

In accordance with the second general consideration laid down at the beginning of this chapter—that regarding expenditures where dishonesty is possible—printing and binding has been assigned a conspicuous place in the account outline. The minor accounts were suggested by the expert on printing, Mr. Henry C. Wright, of the Committee on the Finances of the State of Pennsylvania, appointed by Governor Pinchot. These follow an admirable scheme, and allow a budget expert to determine how much is spent for printing formal reports, accounting forms, and stationery. In accomplishing this, a very real service is performed. Attention is brought to the totally useless formal reports now published by most of our commonwealths and to the rather large cost of the embossed linen stationery on which the employees of the state transact their business. For a legislator merely the totals for printing and binding are all that may be advisedly provided. However, if justification for the publication in the budget of minor accounts exists anywhere, it is here. The preceding comments were written under the assumption that the printing and binding is to be done under contract. When done at a state printing or binding establishment, some of the reasons for emphasizing this expenditure do not hold true.

Rent is assigned a conspicuous place. The Commonwealth of Pennsylvania spent in the neighborhood of a third of a million in the past biennium for rent. Where the total expenditure is as high as this in a field where excessive expenditures are possible, the amount spent should be clearly shown in a financial report.

Repairs done under contract (*g*) might well be assigned a secondary position. The totals are not large and the chance of dishonesty is no greater than average. If any logical way existed to place this account under another major account, it would be placed there. A wise plan might be to place repairs under (*m*) Equipment, and (*n*) Lands, and buildings and construction. This in part follows Illinois practice. An obvious

advantage is that it eliminates a disagreeable and annoying "twilight zone." Much the same reasons militate against combining equipment and repairs as against combining materials and supplies and equipment after the New York manner. Accounting theory is violated, and an imperative expenditure is combined with expenditures which may be postponed. The legislature should use discretion in cutting a budget item for repairs. It may go very far in cutting an equipment estimate. Probably the better plan is to set up repairs separately.

Newspaper advertising has been taken up earlier in the chapter and the reasons for setting it up separately have been indicated. Especially in those states where election notices must by law or constitutional mandate be published in the newspapers of the state should this practice be followed. Publication of the amounts will quicken the repeal of laws compelling publication. Expenditures of this type are useless. Papers would publish lists of candidates whether paid to do this or not. Besides it is doubtful whether anybody reads the paid election notices. Few do more than follow the narrative accounts on the front pages.

Subsidies are of increasing importance as items of state expenditure. Subsidies to local divisions of the state for the aid of education form a large percentage of expenditures of such states as New York and Pennsylvania. Subsidies should be subjected to constant scrutiny to secure a fair apportionment among the recipients and to guarantee an efficient spending by the various local divisions and private charitable and scientific organizations. The fact that subsidy sums are not expended by agencies under the direct control of the state warrants giving such expenditures due prominence in financial reports to the legislature.

(*m*) Equipment, necessarily must be set up separately as a major account. This expenditure is of sufficient importance to warrant separate treatment. Office equipment is purchased at some time or other by every spending agency. Motor vehicles are likewise a common but important article. No special minor accounts other than these have been provided. Special activity equipment — highway, hospital, institutional — automatically

segregates in account (*m*) 3, Other equipment, in accordance with the function of the spending agency.

The account entitled, Lands, buildings and construction under contract, exists in some form or other in every classification now in use. Its importance warrants this treatment. Furthermore, it is a fair-weather expenditure, which may be cut in financial stress. This is an added reason for separate reporting. Land is reported separately in a minor account. The cost of buildings and construction under contract is also separately reported. This account does not include all expenditures for construction—merely that done under contract. Expenditures for construction work by a state agency should be itemized in the same manner as are other expenditures of state agencies —according to Salaries and wages, Materials and supplies, etc. But in the budget, the spending agency carrying on construction work might well report this according to project and clearly indicate the expenditure reports and appropriation requests dealing with each separate construction. This problem will be taken up more fully in the portion of this thesis dealing with the presentation of material in the budget.[23]

Account (*o*) deals with Other items, chief of which are Insurance, Interest, Payments on debt, and Pensions. In reporting this item to the legislature, if the totals of the minor accounts exceed a moderate sum—ten thousand or any other reasonable amount—it might be advisable to segregate the expenditures according to the minor accounts and publish them in the budget. This practice avoids making a major account for payment of debt, interest and insurance.

This classification has few "twilight zones." Where these exist, valuable reasons prevent avoiding them. The expenditures where dishonesty is possible have been set up as major accounts. Certainly detail has been avoided to a relatively high degree. Few technical terms appear. In order that all confusion may be avoided, an index of objects with the usual classification is suggested. The Arizona, Ohio and Illinois

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[23] See pp. 47–50, 58–60.

indices are good examples of what is proposed here.[24] By including and classifying every conceivable expenditure, uniformity to a large measure may be secured. In fact, with a good index the classification of expense vouchers becomes mechanical.

Criticism of the Classifications of the Several States

In order to give a picture of actual practices in the states, several of the classifications now in use will be described in a brief manner and criticized in the light of the principles laid down in this chapter. One of these, the Ohio, will be described in some detail as representing one of the most modern systems.

Ohio. The accounts in this classification follow:

1. Personal Service:
   - A 1. Salaries.
   - A 2. Wages.
   - A 3. Unclassified Personal Service.

2. Maintenance

C. *Supplies:*
   1. Food.
   2. Forage.
   3. Fuel
   4. Office—
      (*a*) Postage.
   5. Medical and Surgical.
   6. Cleaning.
   7. Refrigerating.
   8. Educational—
      (*a*) Recreational.
   9. Agricultural.
   10. Motor Vehicle.
   11. General Plant.

D. *Materials:*
   1. Highway.
   2. Building.
   3. General Plant.

E. *Equipment:*
   1. Office.
   2. Household.
   3. Medical and Surgical.
   4. Live Stock.
   5. Agricultural.
   6. Motor Vehicle.
   7. Wearing Apparel.
   8. Educational—
      (*a*) Recreational.
   9. General Plant.

This classification has the merit of being simple and free from details. The definitions printed in the same bulletin directly

[24] These indices are contained in the budget instruction pamphlets. See Arizona, *Book of Instructions for Classification of Expenditures*, 1921; Ohio, *Budget Classifications and Rules of Procedure*, 1922; Illinois, *Budget Classifications and Rules of Procedure*, 1921.

after the accounts explain the accounts in a very usable manner. It might be improved in several respects:

1. The term "Personal Service" is semi-technical. Salaries and wages indicates to a layman exactly what the accountant has in mind when he uses the term "Personal Service."

A 1. Salaries, is defined to include permanent positions and A 2. Wages, temporary positions and day labor. These definitions are arbitrary and not universally used. The Pennsylvania, Illinois, and Nebraska plan of classifying according to temporary and permanent secures the same result without confusion.

2. A "twilight zone" exists between supplies and materials. In the definitions this point is noted and accountants are cautioned to distinguish carefully. How successful the Finance Department of Ohio has been in securing uniform differentiation is uncertain. The viewpoint of this thesis on the subject has been outlined in detail earlier in this chapter.[25]

3. (*e*) Equipment, is misleading. As outlined in the definitions, only replacements of worn-out equipment are to be included here. New equipment is to be charged to (*g*) 31. Capital equipment. A better plan would be to call (*e*) Replacements of equipment, and to transfer the sub-accounts (*e*) 1–9 to (*g*) 31.

The classification proposed in this thesis makes no attempt to separate new equipment and equipment purchased to replace old equipment. Theoretically a distinction exists and separate accounts ought to be created in the manner of the Ohio classification. A replacement constitutes a current operation expense while the purchase of an additional piece of equipment is a capital outlay. Practically such a distinction is difficult to apply. It is approaching the impossible to determine to what extent a purchase is a replacement and to what extent an addition to the capital outlay. The simplest way is to handle all new equipment as additions to the capital outlay and to write off the old equipment. This will keep the capital account at approximately the correct amount.[26]

4. The term "Contract and open order service" is not clear

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[25] See pp. 15–18.

[26] See opinion of Francis Oakey in his *Principles of Government Accounting and Reporting*, pp. 341–342.

to a layman. The term, "Fixed charges and contributions' is also vague. Neither should appear in a classification. Both may be very convenient general heads and tend to keep the number of major accounts low. The disadvantages of a technical terminology mitigate any advantage. The first term is not only meaningless to a layman but furthermore, is too all-inclusive. Repairs, traveling expenses and heat, light, power and water are in fact too diverse to be grouped together. They are similar theoretically only in that, from a certain point of view, they are services. The expenditures in a group should have a certain amount of real coherence.

The Auditor of Ohio from 1913 to 1921, Mr. A. V. Donahey, in his report for 1919, called attention to the term "maintenance" with a view to having the use eliminated. His complaint was that it meant nothing definite. To quote his words: "The citizens of Ohio who pay taxes are entitled to a report of state disbursements that is intelligible, and this is possible only when appropriations are made under a system of budget classification that . . . is so arranged that the cost of definite purposes, such as postage, telephones, expressage, traveling expenses, meals, etc., can be shown."[27]

Furthermore, the placing of expenditures in which dishonesty may occur consistently in a minor position is poor practice. A full discussion of this point appears earlier in this chapter.[28]

5. Rotary funds as defined in the text of the classifications are not expenditures but funds. There is no valid reason for including funds in an expenditure classification. To be consistent, the Ohio classification should include every other type of fund —which would, of course, be absurd.

These constitute the chief objections to the Ohio classification. There are many points in its favor. The chief is its pleasing freedom from details. Moreover, the accounts cover the expenditures in a rather thorough manner.

Illinois. The chief point of interest in the Illinois classifica-

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[27] Ohio, *Report of Auditor of State*, 1919, pp. 7, 8.
[28] See pp. 18–19.

tion,[29] is the use of two omnibus accounts—Office expenses and Operation. These are used together with six other major accounts —Salaries and wages, Travel, Working capital, Repairs and equipment, Permanent improvement, and Land. The office expense account includes everything purchased by a department and not chargeable elsewhere. The operation account performs the same service for institutions. Office expenses, includes freight, express and baggage, office supplies, postage, premiums on fidelity bonds and boiler insurance, printing and stationery, rent, telephone and telegraph, and advertising. Operation, includes bedding, farm and garden supplies, food, fuel, household supplies, library and amusements, medical, hospital and laboratory supplies, power plant supplies, shop supplies, stock food, wearing apparel (manufactured), motor supplies and expenses, rewards, water, power and school supplies. The Illinois Department of Finance is considering combining Office expenses and operation.

One direct result of this type of classification is to cut down to a very considerable extent the major accounts, and thus tend toward simplicity. But what is gained in the major is lost in the minor. The necessity of printing in the budget estimates and expenditure reports for advertising, printing, rent and other main objects of expenditure is not done away with. These accounts are merely placed in a subordinate position and this is contrary to good budgetary practice.

The real result of the use of Office expenses for departments is that the departments are granted a great deal of latitude in their expenditures. In effect the departments are given a lump sum for a variety of diverse expenditures. The advisability of granting a lump sum for such expenditures as postage, rent, telephone and advertising in normal times is questionable. Appropriations of this kind are subject to abuse. Using the term "operation," really accomplishes little. For nothing which is not a material or a supply, with the exception of rewards, is included in operation. A much better term for this account would be the orthodox expression. Operation is de-

[29] Illinois, *Budget Classifications and Rules of Procedure*, 1920.

cidedly ambiguous. Furthermore, it does not in itself constitute an object of expenditure—an article purchased.

A very commendable practice is the setting up of travel as a major account. A practice previously commented upon is that of combining Repairs and Equipment. Repairs to buildings as well as to equipment are included in this account. If repairs and additions to the capital outlay cannot be separated, as has been the Illinois experience, then they must necessarily be combined. Certainly, though, repairs to buildings should not be lumped along with repairs to equipment and additions to equipment. Repairs to buildings should be included in the account, Permanent improvements. Consistency requires that this be done.

Massachusetts. Massachusetts has provided in the budget forms for a uniform method of reporting expenditure figures and requests. This necessitates the keeping of uniform accounts. Separate series of accounts have been provided for departments, normal schools and institutions.

The chief distinction which the Massachusetts accounts bear is their complexity. For example, major account four for institutions, Food, is classified according to eighteen main heads and twenty-three sub-heads. The other accounts are similarly detailed.

From the viewpoint of a governor or any other executive interested in general financial and administrative control, the classification is impossibly complex. Furthermore, the classification combines expenditures which have no relationship[30] and does not cause the expenditures in which dishonesty is common to be clearly shown when published in financial reports. The accounts of Massachusetts present a pyramid through a microscope.

Bookkeeping

A feeling exists among government accountants that the cost and labor of segregating the expense vouchers prohibits

[30] As, for example, the account Other services and expenses, which includes premiums on bonds of employees, rent, telephone, printing, postage, expressage.

the adoption of classification systems. Even though the cost were extremely high, it would have to be paid for a real financial and administrative controlling system is based on the information which a classification provides. As a matter of fact, the cost is but little greater than is the cost of simply recording vouchers without regard to classification.

A voucher register suitable for producing classified expenditure figures is different from a register of the old type in that a series of columns is provided for recording the expenditures instead of one. One of these columns is used for each classification of expenditures. The number of classifications determines the number of columns. In order that the pages may not exceed seventeen by fourteen—the customary ledger page—insert pages of the usual type may be provided. These insert pages will vary with the number of columns.

A replica of the voucher register suggested for the Commonwealth of Pennsylvania is given facing page 102. The heading need contain only the title of the appropriation against which the vouchers are drawn. In the first column should appear the voucher numbers. Another column might be provided for the auditor's warrant numbers.[31] The next column should contain the name of the payee. Following this should come the total amount. Next should come the classification columns.

To register a voucher the sum will be recorded twice—once in the total column and once in the proper classification column. The effect of this will be a double entry. The totals of the classification columns will be necessarily equal to the sum of the total column. From accounting theory, the total column is the credit column and every time an amount is written, the appropriation account is credited. The classification columns are debited columns. It is, of course, customary to place the credit column on the right. The arrangement outlined above is more practical, however, and custom is disregarded for this reason.

[31] The term "voucher" is used to mean the statement given the finance officer of the state by the head of a spending agency—together with the contracts, bills and any other original data—to the effect that an expenditure has been made in accordance with law. The term "warrant" is used to designate the check given a creditor of the state, payable at the office of the state treasurer or at a banking institution where the state has a deposit.

The foregoing study in methods of classifying expenditures was necessary because upon the classification in large measure depends the success of a system of financial control. To a certain degree the success of the system of administrative control depends on the usability of the information furnished by the financial reporting scheme. Intensive study of the various classifications now in use is justified by the importance of the subject. A good accounting classification furnishes the cornerstone for good administration.

Certainly none of the principles insisted upon in the earlier portion of this chapter ought to be violated in planning a uniform accounting classification. Most important of all the principle regarding details should be rigidly followed—no account should be adopted which has no real reason for its existence. Details will not only confuse the accountants—they will confuse executives; they will confuse budget experts; they will confuse legislators. The capacity of human beings to grasp details is distinctly limited by the psychological fact that not more than one thing may hold a person's attention at any single instant. Moreover, the more detailed the classification adopted, the greater will be the difficulties confronting the bookkeeping staff. Furthermore, the principle that technical terminology should be avoided ought to be rigorously heeded. After all, the average person cannot be expected to know the hidden meanings which lurk in accounting terms. And it is average persons who will read the reports regarding the finances of the state. The principle that expenditures which bear watching should be placed prominently in any classification designed as the basis of financial reports, is likewise important. And it is a principle which is almost uniformly violated by the state classifications now in use. The recent tendency toward the elimination of disputes through the elimination of "twilight zones" is likewise to be kept before the attention of accountants. Otherwise the wheels of the accounting machinery may become clogged.

The next chapters will deal with the use of the material whose production the present chapter aimed to describe.

II

Control Through the Budget

The last chapter presented the machinery through which expenditure figures are being produced in the more progressive states. This chapter deals with the way in which these figures are brought together in the financial report known as a "budget."

The budget from the viewpoint of financial and administrative supervision has a very tangible value. This value consists in the fact that through the budget, expenditures and revenues may be forced to move in harmony. It is also valuable in that through a budget the various activities of the state may be developed in a well-balanced manner. The importance of preventing the expenditures of a state from exceeding the income is, of course, primary. It is of almost equal importance to secure an equitably developed condition of all the services which a state performs. There is a tendency to stress certain services in states at the expense of others. Strong organizations are interested in certain of the state services. In Pennsylvania half a million hunters secure a well-developed game conservation service and a well-organized group of farming societies guarantees a good agricultural bureau. Groups not nearly so potent work for the improvement of the care given for the various wards and dependents of the state. As a result the services which the state performs in various fields are not uniformly intensive.

The value of a budget is that it tends to present for review by the governor and the legislature the entire work of the state in a very compact form. It allows the governor and the legislature to set themselves on a pedestal and look at the work which the state is performing in its entirety. It presents a fairly clear picture of the state's activities and thus furnishes the basis for a plan to improve these activities.

In addition the budget serves to an extent as a means of securing supervision of the spending agencies by presenting to the legislature a report of the manner in which past appropria-

tions have been expended. The accounting machinery outlined in the previous chapter mechanically grinds out expenditure reports as expenditures are made. If the reporting is done honestly, at the end of an appropriation period a regular log has been created showing just what was bought with the appropriated funds. But the value of a report of this nature to a legislature is of form rather than of substance. It gives a legislature a feeling of security. But as a means of informing the legislature of waste of material or of dishonesty in expenditures, its value is slight. A legislator knowing something of the operation of a department can judge in a general way as to the efficiency of a department from the expenditure figures. He can gain no sure knowledge of the economy of the administration.

A budget cannot take the place of a constant audit. Neither can it take the place of a constant investigation into the efficiency of the spending agencies. Neither the legislature nor the governor can depend on the budget reports to give the information necessary to exert pressure to secure honesty and efficiency. A controlling medium totally different from the budget and operating ceaselessly is necessary to give the governor a real grip on his administration. This controlling system will occupy the next chapter. No similar medium exists for the legislature anywhere. Except for an audit by an independent accountant, the legislature is really forced to accept reports as to expenditures on faith.

The budget is valuable, therefore, in controlling the administration in so far as it keeps expenditures within revenues and allows a well-rounded development of the state activities. As a means of forcing efficiency and economy its value is distinctly secondary. Its place in financial control is to allow the captain of the ship of state to take a squint at the sun and find his bearings. It serves to place the governor and the legislator in a watch tower where the affairs of state may be seen in proper perspective.

No difference of opinion exists as to the type of information which should go in a budget. Much has been written on the subject and much duplication of effort has resulted. The general

conception of a budget includes a statement of the total income balanced against the total expenditures. In addition it includes a group of expenditure statements showing in more or less detail the way in which the appropriations have been expended. A detailed statement of sources of income is likewise essential. That material such as this just outlined should appear in a financial report is apparent to anyone scratching the surface of the subject. Detailed proof of its necessity exists in the multitude of books and magazine articles which have been printed on the question of the budget.

But to lay down propositions such as those contained in the preceding paragraph does not complete a consideration of the budget. It merely serves as a beginning. For in connection with budget making, a great number of practical problems arise which trouble a budget maker. It is with these problems rather than with general considerations that this discussion will deal.

Problems in the Reporting of Expenditures

The first problem and the most annoying has already been commented upon. This deals with classification of expenditures by objects. There are other classifications. Chief of these is classification by activities.

Activities constitute the various types of work which a spending agency performs. For example, the Department of Health of Pennsylvania, among other things supervises hygiene work in the schools and inspects schools as to sanitary conditions, collects vital statistics, inspects the streams of the state to prevent pollution, maintains genito-urinary dispensaries, carries on public health educational campaigns and attempts to wipe out the drug traffic. These endeavors constitute the chief activities of the department. It is absolutely essential that the cost of these activities appear in the budget. As stated in the beginning of this chapter, one of the real services which a budget can perform is to present a picture of the state's activities and thus provide for the development of activities which have been stunted and the contraction of those which have been inflated. Such a classification of expenditures actually exists

in large degree in the states because the various departments have been split into bureaus and divisions corresponding to the major activities. The greater the relationship between divisions and activities, the easier is classification of expenditures according to activity. Just how far segregation of expenditures along lines of activities should proceed is hard to determine. The principle of simplicity operates here as elsewhere in budget work. Probably no special attempt should be made to classify in this manner but the budget estimate sheets should be filled out by bureaus and divisions. The result of such classification will be to segregate automatically the expenditures in large degree according to activity.

The question arose in connection with the Pennsylvania budget as to whether estimates should be made by the departments or by bureaus and divisions. The necessity of attaining classification according to the various types of work performed decided the question in favor of bureau and division estimates. The spending agencies were instructed to make out the Salaries and wages sheet, and the sheet containing the Materials and supplies to Other items accounts by the lesser divisions of the organization units. The Lands, building and construction sheet was made out by the large units with no segregation according to divisions and bureaus. This practice is in accordance with Ohio and Illinois procedure. In New York, however, the department was the basis for the estimates. The only departure was on the recapitulation sheet, at the bottom of which a space is provided for a table showing the total for personal service divided according to divisions or bureaus. The Pennsylvania procedure seems to be the more general.

It may happen that there is not a direct relation between the arrangement of the bureaus and divisions and the activities. This was unquestionably the case in Pennsylvania. In event of this condition of affairs, one solution is to reclassify the expense vouchers according to the activities for which the expenditures were made. Such classification cannot be accurately done except at the time when the expenditures were made in connection with the routine accounting work. A better plan is to use the division or bureau classification and then

use a short explanatory statement along with the division or bureau title indicating the activities carried on. A presentation by the several divisions of the work plans outlined later in this chapter[1] is an even more satisfactory method of indicating the activities of the several divisions.

A classification of expenditures according to character is employed in addition to classification by activity and by object in several states. By character is meant the nature of an expenditure from the viewpoint of the durability of the article purchased. Expenditures are classified as either for current operation or for capital outlay. Expenditures for capital outlay are those which add to the fixed capital assets of the state equipment and lands; building and construction are expenditures for capital outlay. Classification of expenditures according to character is usually unnecessary because this classification already exists. All object classifications, except that of New York, segregate equipment, and all segregate lands, buildings and construction. Therefore, to print specially in a budget a segregation according to character is a waste of space.

To indicate the manner in which the various segregations are actually made the following illustration is given from the Virginia budget of 1919. The Virginia is the most completely classified of the American state budgets. Notice particularly that classification follows four cleavage lines: (1) Spending agency. (2) Activity. (3) Character. (4) Object.

BUREAU OF LABOR AND INDUSTRIAL STATISTICS

ADMINISTRATION

Expenses of Operation

A. Personal Service:
A-1 Salaries.
Commissioner of Labor, etc.
TOTAL —

[1] See pp. 58–60.

B. Contractual services, etc.:
B-6 Communication, etc.
B-7 Printing other than office supplies.
Pamphlet laws, etc.
B-8 Other expenses.
TOTAL —

C. Supplies, etc.:
TOTAL EXPENSE OF OPERATION —

Capital Outlays

E. Equipment:
E-1 Office equipment, etc.
TOTAL CAPITAL OUTLAYS —
TOTAL FOR ADMINISTRATION —

The activities are capitalized, *i. e.*, ADMINISTRATION.

The distinction by character is shown through the use of the words "Expenses of operation" and "Capital outlays."

THE BUDGET ESTIMATE BLANKS

In collecting the information to be used in the budget, no attention need be paid to classification by character. Neither need attention be paid to classification by activity if, as stated earlier, a relationship exists between the divisions and the activities or a statement of activities is printed along with the titles of the spending agencies. Therefore, the only classification required is by object.

The sheets now used to collect budgetary information in the states vary greatly in point of convenience. There is a tendency to use many of these in several states. In Illinois, for example, nine separate forms are used. In Ohio, eight are used; in Massachusetts five for departments fifteen for normal schools and thirty-four for institutions. In Pennsylvania four are used; in New York, three for departments and seven for institutions. Certain states use only one. These include Montana and Washington. North Dakota uses a single form for depart-

ments and another for institutions. In New Mexico a booklet of eight pages is employed.

It is advisable to provide several budget sheets rather than one to be used for all purposes. By using a group of sheets the account titles can be printed on them and each estimate will, therefore, have a definite place. This increases the usefulness of the forms. The departments with large expenditures often require as many as fifty sheets. The guide furnished by printed account titles is welcome to the confused budgeteer. A separate sheet for salaries and wages is necessary because it is customary to print in a budget a list of all the positions with the salary each carries. Nor is this custom without actual value to either a governor or a legislator. If the actual salary paid to each employee is accurately given no single employee can receive more than a moderate amount. The ancient and honorable practice of distributing any surplus of the appropriation at the end of a fiscal year to a few insiders becomes impossible with a detailed account of the fund paid each individual. The chief value, however, in printing a list of state employees is psychological. A feeling of security must inevitably arise in the minds of the legislators if a report of this nature is given them. The publication of this information carries with it an atmosphere of freedom from dishonesty. To a modern state governor, harassed by political enemies and by legislators who obviously distrust him, the creation of a feeling of security among the law makers is of practical advantage. It gives the governor a breathing space in which to accomplish things which would otherwise be impossible. Furthermore, if the information regarding the civil list is published, a governor can go before the legislature with a convincing argument for a stringless lump sum method of appropriation. With a promise to report at the end of an appropriation period the funds spent for the entire civil service, he can ask for unhampered control over expenditure sums. Freedom from restrictions which bind is an essential for successful administration. In fact, on just such freedom is a real system of financial and administrative control based. Limitation and restriction are the antithesis of control. Control implies intelligent supervision and pressure from a

superior authority over routine administrative bodies. The legislature is exerting no control when it places limitations and restrictions on the action of the executive. Limitations are necessarily arbitrary and unyielding.

A legislature can exert real control over the administration. It has a valid place in a controlling system in determining policy. When it limits a governor it does not exercise control, but merely prevents the governor from exerting the type of control he is in a position to exercise. Control by the legislature is exerted when it reviews the work of the state to determine how the various activities shall be developed. It is of distinctly a different type from the control exercised by the governor. It arises from the function of a legislature to determine policy. It is distinct from the function of a governor to enforce efficiency.

To a governor a report by the spending agencies of the employees on the payroll is essential. Especially is this true if the controlling system outlined in the next chapter is not in force, for in such a case this will be the only report of employees coming to his attention. To an incoming governor a report of this type is of infinitely more value. A report of office-holders gives a clearer idea of the organization of the spending agencies than any other. Prior to reading a list of the office-holders, a spending agency appears as something indefinite. With the composition of the staff known, the agency takes on life and assumes real form. The Pennsylvania Department of Mines, for example, takes on a real existence when a personal service list is presented showing that most of the employees are mine inspectors. A report of this nature gives an executive something tangible to use in securing information regarding efficiency. He can inquire into the duties of various officials, ascertain the necessity of an apparently large force of stenographers, determine upon the actual need for a bookkeeping staff.

Another separate page must be set aside for lands, buildings and construction. Here, also, an itemized list is necessary. The reason is, of course, that no building program will be sanctioned without the presentation of detailed estimates for each major construction. Furthermore, building is an activity which

may be postponed in business depressions, or perhaps, hurried in depressions if necessary to ameliorate labor conditions. At any rate, it is a capital outlay and not a necessary current expense. This fact is emphasized through the use of a separate sheet in making estimates.

The need for separating the other accounts and devoting a separate page to them is not pressing. No need exists for presenting a more highly detailed report of materials and supplies, traveling expenses, postage, telephone and express, printing and binding, rent, repairs under contract, advertising, pensions or subsidies than appears in the classification. Equipment expenditures in the Virginia budget are generally given in detail. Every typewriter, desk, and adding machine purchased or requested is usually carefully noted. In the estimate sheets of Massachusetts this information is requested. Some reason exists for itemizing these expenditures. The exact use of every dollar appropriated for equipment is in this way reported. But the remarks regarding a too detailed report outlined in the preceding chapter probably apply here a'so. Neither the governor nor the legislature, especially in a large state, can give the time necessary to study reports which are detailed. Possibly no well-defined line of demarcation exists between the necessary and the unnecessary detail. Certainly though, the practice of separately reporting each typewriter and desk purchased borders on absurdity. A good purchasing system and a perpetual inventory of equipment are *media* through which abuse in the purchase and use of equipment is best prevented. The fact that a budget cannot secure the honesty of employees of the state must not be overlooked and cannot be overemphasized.

In the budget estimate sheets for the commonwealth of Pennsylvania, all the accounts except Salaries and wages, and Lands, buildings and construction, are gathered on one sheet. As a result, the estimate blanks in this state are, with the Recapitulation sheet, four in number. This number cannot be readily reduced unless merely a single form with no account titles printed on it is used. The general heading of the Pennsylvania forms is printed on the following page.

FORM B1

COMMONWEALTH OF PENNSYLVANIA
Budget Estimates
JUNE 1, 1923, TO MAY 31, 1925

SALARIES AND WAGES
A—Accounts
Department or other Spending Agency..... *Division or Bureau*..... *Officer Making Budget*.....

1	2			3	4	5	6	7	8	9	10
ACCT. NO.	EXPENDITURE CLASSIFICATION LIST EACH POSITION SEPARATELY	NO.	RATE	EXPENDITURES YEAR ENDED MAY 31 1920	EXPENDITURES YEAR ENDED MAY 31 1921	EXPENDITURES YEAR ENDED MAY 31 1922	EXPENDITURES YEAR ENDED MAY 31 1923 (ESTIMATED)	APPROPRIATIONS OR REVENUE BIENNIUM COMMENCING JUNE 1 1921	ESTIMATED DEFICIENCY OR SURPLUS BIENNIUM ENDING MAY 31 1923	REQUESTED OR AVAILABLE YEAR ENDING MAY 31 1924	REQUESTED OR AVAILABLE YEAR ENDING MAY 31 1925
	TOTALS										

The number of columns and the titles which appear on a budget estimate sheet vary with the number of years whose expenditures are to be shown. The value of expenditure reports going back as many as four years is doubtful. Especially in a period of fluctuating service and commodity prices. Before such figures have value they must be placed upon the same dollar basis, and this involves tedious clerical work. Furthermore the organization of the state government changes from year to year. This introduces the problem of separating the expenditures of spending agencies which have been divided and then consolidated with other agencies. The accuracy of the figures is, therefore, open to question. Lastly, unless accounts have been classified according to a uniform plan, obtaining budget figures for as many as four years involves a good deal of nerve-racking classification work. In Illinois about ninety thousand expense vouchers reach the auditor's office yearly. In Pennsylvania the number is about fifty-seven thousand. For a state where expense vouchers have not been segregated in the routine accounting procedure, no more than classification for two years can reasonably be attempted.

The columns used in Pennsylvania are ten in number. The first is used to designate the numbers of the uniform expenditure accounts. The second is for the expenditure classification. Here are printed the account titles, or in the case of Salaries and wages, the title of each position, or in the case of Lands, buildings and construction, a description of each project. From the third to the sixth appear the actual expenditure figures for the current and the preceding biennia.[2] The last year of the current biennium—the year in which the reports are collected—must be estimated. The seventh column is entitled, "Appropriations or revenue commencing June 1, 1921," what was then the current biennium. Following this in column eight appears the surplus or deficit of the appropriation for the current biennium. Columns nine and ten are for the spending agencies' estimates as to needs for the approaching appropriation period.

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[2] Only expenditure figures for the current biennium were actually required.

Column seven is entitled, "Appropriations or revenue," because in Pennsylvania certain spending agencies are supported by special revenue laws, all of whose revenue is available for the work of the agency and is available from year to year without special action by the legislature. The amounts spent by such organizations should be reported to the legislature as well as the amounts spent under ordinary appropriations. In fact, the need for a report is greater. Organizations supported by a never-failing source of revenue which often yields greater amounts than are actually necessary tend to become inefficient. The legislature must exert constant pressure or such organizations will become independent of control and possibly ineffective.

The first estimate sheet used in Pennsylvania Form B-1, for Salaries and wages, has two additional columns—one, for the number of employees in any one class, and a second for the individual rate of compensation. These columns are placed between columns two and three. Their need is obvious.

Comments on Existing Budget Forms

The classifications by objects of expenditure used in the states have already been commented upon. These classifications are at the core of the budget problem and constitute the chief element. Therefore, only the less important points in the state budget estimate blanks are discussed here. The few state forms included are typical.

Illinois. In the state of Illinois, nine forms are used. These are small and convenient in size—not much larger than an ordinary letterhead. Only the expenditures for the current biennium are required. The chief objection to the forms is their number. The large number of minor classifications—about ninety-two—prevents a great reduction in the number of sheets through using up the space wasted on several of them. However, the length might be readily increased. This would permit a reduction from nine to five or six blanks, and would increase their usefulness to that extent. A valuable practice is printing on the reverse of the blanks explanations of the account titles and of the columns. This practice also is followed in Ohio, as well as in several other states.

Massachusetts. The Massachusetts forms are in keeping with the Massachusetts accounting classificat on, and are quite the bulkiest and most complicated forms now used in the states. By cutting out the detailed accounts, by choos ng major accounts w.th a view to their importance, and by increasing the size of the sheets, usable blanks could be evolved. At present the Massachusetts blanks stand alone as a most unique contribution to the goddess of American administration—Complexity.

New York. The New York estimate blanks are eleven in number. Four are used for departments and seven for institutions. The departmental blanks follow the same scheme as the Pennsylvania. One is given over to personal service, one to construction or permanent betterments, and one, titled "Maintenance," to everything else. The fourth is a recap sheet. The institutional blanks follow the same scheme. The increase in number is caused by the detailed nature of the accounts under "Maintenance." These cover four sheets. The use of the detailed accounts has already been criticized.

The New York figures are presented by departments. A special request is given to eliminate bureaus and office divisions. This practice tends to simplification. Its disadvantages are, however, important. The expenditures of inefficient bureaus are screened by the efficient. Activities of the departments are not clearly indicated nor is the cost of each given. One advantage of the practice is that the legislature must appropriate by departments instead of by divisions, if it has no division expenditure reports. This allows the department head freedom in spending the funds and permits him to apportion them among the departments as he pleases. Where a legislature is prone to tie the hands of the department heads by segregated red-tape appropriations, the New York plan should undoubtedly be followed. One feature of the New York estimate reports, and this is true of the Ohio and Illinois as well, is the provision of a uniform detail sheet for explanations. The presence of a detail sheet acts as a constant reminder that short explanations regarding estimates or expenditures are desired by the makers of the budget.

Activity Reports

One of the services which a budget performs, as outlined at the beginning of this chapter, is to allow a proper expansion of the several spending agencies. For this purpose, the activities each performs must be clearly understood. That this evaluation of services may take place, a report of the activities of each agency should be published along with the budget. In Illinois, an aim constantly held in mind as necessary of achievement though not yet feasible, is the publication of a pamphlet along with the regular budget showing what each agency expects to do with the money requested in the budget.

The necessity for a statement of what is to be done with the funds is really axiomatic. Yet no budget has been sent me—and I have written for all—which contains in any appreciable degree the information as to the use to which the funds shall be put. Nor does it appear that the production of such activity reports is obviously difficult or impractical. Surely no budget makers have prepared a budget without finding out what the spending agencies intended to do with the desired funds. The trouble seems to be that the slave labor involved in writing down the reports prevented their being written. Illinois experience has shown that a budget-making organization cannot expect the various spending agencies to prepare the reports themselves. An attempt was made to have the various departments outline work programs. The results were either cut-and-dried and formal generalities or highly imaginative and chimerical schemes. This caused the budget makers to lose hope in the production of work programs. In Pennsylvania the preparation of plans of this nature was contemplated. The need for gathering the budget figures together in a short space of time and with no previous organization prevented the plans from being prepared. About the nearest approach to a plan of this type appeared in the Arkansas budget for 1921–23. Here a synopsis of the organization of the state government was given and the duties of the several agencies were briefly described. It is totally inadequate, however, and although in the right direction fails to go far enough. No well-

prepared outline of state activities was included for any department.

Naturally such programs to be read by a legislator—and it is primarily for the use of legislators that the programs are prepared—should not be in the aggregate very lengthy. Probably few should exceed a thousand words and the average should not run much over five hundred. Furthermore, the necessity for freedom from detail must not be overlooked. The application of the detail principle is as vital here as elsewhere in the budget.

In the absence of specific examples of these programs it is difficult to prescribe what they might advisedly contain. In a general way, however, the following points can be laid down. Any good program should certainly contain an outline of the services which the spending agencies propose to render during the coming year. Extensions of the service and new activities should be especially well described. Generalizations might well be pinned to earth with a series of illustrations typical of the work performed. Nothing is more valuable in description than a well-chosen example. In the main these illustrations should be designed to show the tangible benefits which accrue to the citizen of the state through the existence of the several agencies. Another type of information which is not as important but which is conducive to progress is involved in answering this question: Is the state doing as much for its citizens along various lines as are the other states in approximately the same class? Through a comparative treatment of the services of the agencies of several states direct and tangible progress should result.

Much valuable information can be readily shown in maps wherever the services of an agency are spread over a large area. For example, maps showing the distribution of the highway systems, of agricultural experiment stations, of agricultural agents, of normal schools, of fish hatcheries, of armories, of game wardens, of factory inspection units, of mine inspection areas, and of projects of a similar nature should be helpful. Similar to presentation of material through maps is presentation through the use of charts. Charts comparing the number of insane in state asylums with those requiring treatment, and

the number of widowed and abandoned mothers receiving aid with those unaided, are illustrative of the manner in which charts may be effectively used. The value lies in the readiness with which an essential point may be clarified. No great mental ability is needed to grasp the import. Nor is any great time required. These factors make charts, and maps, as well, indispensable to a good service report.

Problems in Reporting Revenues

The problems in reporting revenue are distinctly less complex than those involved in reporting expenditures. The principal problems deal with the classifications. The chief classifications are according to funds and revenue laws.

A practice has grown up in the states of segregating the total income into a group of expenditure funds. Most of the states have a general fund. But in addition a group of special expendable funds exist. In Pennsylvania, for example, there are twenty-three separate funds.[3] In Wyoming there are over one hundred.[4] Pennsylvania is more nearly typical than is Wyoming. A better word than fund and one more readily understandable is pocket. It is clearer to say that a state has a group of pockets into each of which certain revenue laws pour their incomes.

The income of various funds must be clearly distinguished because it is legal to appropriate from each for only certain purposes. Thus, in Pennsylvania, the income from the hunters' license law accrues to the Game Fund and may be expended for game protection alone.[5] Sinking funds expendable for the redemption of certificates of indebtedness are prevalent in all the states, and are expendable for only one purpose.

The second classification of revenue is according to the revenue laws. A revision of state revenue systems is constantly necessary as inequities in the various laws become apparent. One

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[3] See the Revenue Chart made by Charles McDevitt for the Reorganization Committee of Pennsylvania.

[4] See Wyoming, *State Budget*, 1921–1923, pp. vi, vii.

[5] Pennsylvania, *Laws*, 1917, p. 797.

means of preventing the growth of a faulty revenue system is to print clearly in the budget the exact sources of all the revenue and the amount realized from each source. This is accomplished by segregation of the revenues according to revenue laws.

A report of all revenues segregated, first, according to fund, and second, according to revenue law is essential to the presentation of the information which a legislator requires. This information exists in the office of every state auditor or controller. The problem is not one of producing the figures but of collecting and presenting them so as to be readily perceptible to a busy layman.

A form showing clearly the sources of revenue and the funds to which the revenue accrues is used in Illinois. It is entitl d, "Revenue—remitted or to be remitted to the State Treasury."[6] In the first column is given the source of the revenue. A note is given to itemize each distinct type. In columns two and three is given the cash actually received for the most recent completed revenue years. In the next three columns are given the estimates for the coming years. At the bottom of the form a space is given for the total amount accruing to the general revenue fund and that accruing to other funds. The outstanding feature of this form is the close adherence to the theory of revenue classification. A change in instructions which might well lead to greater convenience would be to provide that the receipts to only one fund should be presented on a single sheet. This would allow all the receipt reports from collecting agencies accruing to any one fund to be arranged in a group and would add materially to convenience.

It is necessary for budget making and financial control through *media* other than the budget, that all receipts collected by spending agencies be reported to the budget officials. It is the practice in some states to allow institutions and departments earning receipts to spend them directly.[7] This is perfectly good pro-

[6] See Illinois Department of Finance form F B 26, *Revenue*.

[7] The Banking Department and Game Conservation Department of Pennsylvania are examples. See Pennsylvania, *Laws*, 1919, p. 215; 1917, p. 797. See also the Utah budget for 1923.

cedure, and it avoids the red tape involved in turning over funds to the treasurer. But a report of such receipts and of expenditures from them must go to the budget officials in order that the total cost of operation of departments may be presented and in order that the degree of self-support of the several institutions may be perfectly clear.

In the budget of the state of Utah, the revenue accruing to each spending agency for expenditure without special legislative authorization is indicated in a column paralleling the suggested appropriation column. The effect of this practice is to inform the legislature as to the total funds which each agency will have available.

Institutional receipts require classification not according to law or fund but according to the service for which the receipt was obtained. The receipts for services—tuition fees in normal schools, bed fees in hospitals—form one class. Receipts from an industrial activity carried on in an institution form another. The total value of farm produce produced on an institutional farm and consumed at the institution or sold to outsiders counts as receipts. The value of license tags, of shoes, of printed matter produced at a prison establishment counts as receipts. In order that the receipts from industry may be clearly shown, as well as the net profit, a uniform proprietary accounting system is necessary for every institution.

The Board of Administration in Kansas has provided a uniform reporting system for the receipts from the various industrial activities in institutions. A record of the value of the farm and garden produce, livestock, and articles of domestic manufacture, both consumed in the institutions and sold, is kept. Furthermore, a careful cost record is kept of all clothing manufactured in the institutions. The information produced by an accounting system of this kind is essential to good budget making as well as to a system of control for institutions.

In the Ohio budget[8] for 1921 an unusual scheme of revenue classification is used. This follows:

[8] Ohio, *Budget*, 1921–1923, p. 10.

I. Sales—
Farm. Miscellaneous.
II. Service Payments—
Support of patients in state institutions. Inspections.
Tuitions.
Examinations. Miscellaneous.
III. Capital Income—
Interest. Rentals. Land Sold.
IV. Fines and Penalties. V. Contributions.
VI. Admissions. VII. Miscellaneous.
VIII. Taxes—
Direct. Indirect.

Though eight divisions are provided these could readily be reduced to:

1. Receipts from taxes.
2. Receipts from law violators.
3. Receipts from capital investment.
4. Receipts from sales and services: (*a*) turned into treasury; (*b*) available for expenditures by collecting agency.

It may be advisable to segregate the receipts first according to funds, then according to laws, arranging these laws according to the Ohio scheme or the scheme proposed above.

Correlating the Information

The accounting machinery outlined in the second chapter has recorded the expenditure figures and these have been reported to the budget makers on the expenditure forms outlined in the earlier portion of this discussion of budgetary control. Revenue figures have been reported on the revenue forms and activity programs have been filed. The next problem is to take this varied information and so arrange it as to be most easily grasped by both the governor and the legislature. The important points must be placed where, in a ten-minute reading, they can be mastered. The entire evidence of the state's fiscal condition must be correlated and arranged in order that any deductions will be self-evident to one knowing nothing about technical financial reports.

The primary facts requiring correlation are the total appropriation recommendations and the total revenue. The budget is of most importance in so far as it prevents appropriations from exceeding the anticipated revenues. For this object the total requests for appropriations by the spending agencies must be ascertained and balanced against the probable income. Either the requests must then be cut down or the revenue laws must be made more productive.

The requests seldom even approximate the revenues. The usual practice is for the spending agencies to request amounts considerably beyond the largest possible income. In 1923 in Pennsylvania, for example, the requests were for two hundred and twelve million, while the total net income available from the general fund for new expenditures was merely ninety million. In New Jersey, in 1922, after a budget system had operated for a number of years, the hopes of the agencies had not been sufficiently dampened to prevent the requests from exceeding the income by one-half.[9] In Ohio, however, in 1921, the requests were for one hundred and five millions while the income estimate was for one hundred millions.[10] There is a tendency for the spending agencies to become more and more conservative the longer the budget system operates.

The real task in budget making does not lie in collecting the requests but in determining which requests shall be allowed. The mechanical side of budget making—the side dealt with in this thesis—is important, for a correct mechanical procedure is essential. But the really difficult part of budget making lies in evaluating the various spending agencies and ascertaining their needs. For this work no mechanical procedure can be laid down. The method of operation depends entirely on the individuality of the budget makers. In a general way the procedure is to hold conferences with the heads of the several spending agencies and base the conclusions on the conferences. Or else actually to enter the offices of the several departments and attempt to gather an idea as to their real efficiency in this

[9] New Jersey, *Budget*, 1923, p. 13.
[10] Ohio, *Executive Budget*, 1921–1923, p. 7.

way. If a permanent staff of budget makers is provided, the task of budget making becomes much easier because through constant—year in and out—study, a basis for judgment of the requests is obtained. Even with a permanent secretariat, a budget bureau often works in a hit-or-miss manner. This is almost inevitable as the task of intelligently and conscientiously examining the flood of expenditure figures and appropriation sums is monumental. In a western state in which a budget system had been in operation for several appropriation periods, the superintendent of the budget informed me that much of the cutting of requests was done in a heartless manner on the basis of insufficient knowledge. For the most part the spending agencies are given about what they received in a preceding period. This is especially true after a budget bureau has been in operation over a period. The law of inertia tends to perpetuate any given arrangement of figures.[11]

Once the requests have been cut so that they fall within the state income, the figures need presentation in such a manner as to convey to the legislators the following information:

1. The exact relation existing between the income and outgo. This is shown by an operation statement.
2. The relation existing between the income and outgo of each separate fund. Along with this information, needed changes in the revenue laws should be given.
3. The totals of appropriations for the chief spending agencies over a ten-year period.
4. The percentage relationship existing between the amount spent for the main activities of the government.
5. The percentage relationship existing between the chief sources of revenue in the past biennium and the estimated relationship in the coming.
6. Detailed data on the receipts of the previous biennium.
7. Detailed data on past expenditures.

1. *The Operation Statement.*

An operation statement should show the relation existing

[11] For detailed evidence of this tendency, see the Virginia budgets of 1920 and 1922. Also the Illinois budgets of 1919, 1921 and 1923.

between income and expenditures in the past and between anticipated income and recommended outgo. This statement is prepared by giving a table showing the principal items making up the total expenditures and following this by a table giving the chief sources of revenue. At the end of the table, the excess of income over outgo or *vice versa* is given.

Good examples of operation statements appear in the Arizona budget for 1922 and the Federal budget for 1924. The Arizona statement is printed here:

INCOME

Taxes	$3,529,305.00
Estimated Balances	582,765.00
Income from Land and Timber Funds	258,200.00
Indirect Revenue to General Fund	433,110.00
Gasoline and Motor Vehicle Tax	375,000.00
Indirect Revenue for Use of Departments—Not in Consequence of an Appropriation	340,855.00
Federal Aid Excluding Roads	163,300.00
National Forests	65,000.00
Gross Total	$5,747,535.00

OUTGO

By Departments—	
Educational Group	$3,343,653.00
Public Works Group	897,095.00
Agriculture Group	388,415.00
Law and Judicial Group	97,325.00
Administrative Group	292,922.00
Charitable and Penal Group	501,495.00
Military Group	75,622.00
Interest	149,646.00
Relief	1,362.00
Total	[22] $5,747,535.00

This statement shows clearly the chief sources of income and the chief objects of appropriations. An operation statement of this type may readily be made comparative. The statement

[22] Arranged from Arizona, *Second State Budget*, 1922, p. 3.

of the Federal Government provides figures over a three-year period.

2. *Statements for Each Fund.*

As previously outlined, the several states have followed the practice of placing the income in several funds, or as was stated for clarity, in several "pockets." In Nevada, the status of each fund is given separately in the budget. This practice is sound for the existence of these funds necessitates what amounts to a separate budget for each fund. These fund statements amount to fund operation statements and the operation statement discussed above is merely a combined fund statement. An illustration of a fund operation statement follows. It is taken from the Nevada budget for 1921:

UNIVERSITY BUILDING FUND

	Key Ref. L-3-1. 1921.		1922.	
	INCOME.	EXPENDITURES.	INCOME.	EXPENDITURES.
First Installment: Tax, 1921	$22,000.00	.....	$22,000.00	
Second Installment: Tax, 1921	.....	.....	18,000.00	
First Installment: Tax, 1922	.....	.....	22,000.00	
Expenditures	.....	.....	.....	$40,000.00
Balance January 1, 1923	.....	.....	.....	22,000.00
Totals	$22,000.00	.....	$62,000.00	$62,000.00

A tax levy of 2 cents for 1921, 2 cents for 1922, is recommended.[13]

In the budget the general operation statement should be presented first. After it should come the fund statements. The Nevada practice of printing a recommendation regarding the amount of required tax for the coming biennium below the statement of each fund is excellent. It often happens that a

[13] Nevada, *Executive Budget*, 1921, p. 9.

legislature has not judged correctly the revenue necessary to operate the spending agencies supported by a particular fund. The result follows that an agency is flooded with funds which it spends wastefully or else is hampered by a lack of revenue. A glance through the fund balances in the funds of Nevada illustrates this point. Constant regulation of the flow of revenue is, therefore, essential. In addition to placing such suggestions for change in revenue laws here, the suggestions should be printed as a unit in a conspicuous place, possibly in the budget message. No real reason exists for not revising the revenue laws as often as the appropriation laws are changed.

3. *Comparative Appropriation Statement.*

A certain value exists in showing the trend of the cost of state government over a period of years. A statement of this type prevents any sudden orgy of spending without compensating explanations. In the budget of the state of Ohio for 1921, a table showing the receipts and disbursements over a five-year period was given. In addition a comparative statement showing the expenditures reduced to dollars of the same purchasing power might well be given. In a period of fluctuating prices, a comparative statement of expenditures is of questionable value. In the case of Ohio, for example, budget figures show an increase in expenditures of one-half in a five-year period. If the dollars were all reduced to dollars of 1915—the first year shown—a totally different result would appear. For prices went up, roughly, twice as rapidly as governmental costs. The real story of governmental costs is best shown by a graph. If two lines, one showing the trend of expenditures in fluctuating dollars and the other in stable dollars, were plotted and the result printed in a budget, the entire story would be presented without necessitating any effort upon the part of readers.

4. *The Relationship of Expenditures.*

It is necessary, if an equitable arrangement of appropriations is to be made, that the legislators be shown the relative expenditures for the several activities of the state. An operation statement, described above, will accomplish this object because

the expenditures for the major departments are shown there. The relationship may be much more clearly shown by placing the expenditures on a percentage basis. Not only might it be well to give a table showing the percentage relationship, but a cart-wheel chart could be prepared showing in a very clear manner the relationship. This latter practice is followed in the Arizona[14] and in the Federal budget.[15]

5. *The Relationship of Revenues.*

The relation of the amount realized from any one source of revenue to the whole is equally interesting to a legislator, and may be shown equally clearly by the same device used in the case of expenditures. An illustration of the use of a wheel chart for revenues is in the Federal budget statements for 1924.

6. *Detailed Receipt Data.*

The fund operating statements merely contain the total receipts by the chief sources. A more detailed report of receipts will probably be expected by the legislature, although it may not be of any great value. The chief sources which require detailed reporting are the receipts for institutions and also the miscellaneous receipts by departments. The income from the various tax laws cannot be segregated in a budget farther than according to the laws themselves, and this segregation exists in the fund operating statements.

In the detailed reports the receipts of each organization of the state should be noted. A separate report for income turned into the treasury and income directly available for expenditure is necessary. The detailed expenditure reports shown in the Virginia budgets are excellent examples.[16]

7. *Detailed Expenditure Data.*

The bulk of every budget consists of the detailed expenditure data. This data supplements the totals shown in the operation statements. Earlier in this thesis the limit to which detail

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[14] Arizona, *Executive Budget*, 1922, p. 7.

[15] United States, *Message of the President of the United States Transmitting the Budget and Budget Statements*, 1922 facing p. A4.

[16] Virginia, *Budget*, 1920–1922, pp. XX–XXIII.

should be carried was laid down.[17] The conclusion reached was that the personal service account should be itemized according to positions to meet the demands of the legislators. But for all other accounts merely the major headings were to be shown. Thus in making the budget, the Salaries and wages, and the Recapitulation sheets only need be sent to the printer for publication.

In printing the detailed reports, the practice is followed in certain of the states of arranging the reports according to the funds from which the expenditures are paid. This practice allows the detailed reports to follow the same order as the operation statements of the several funds. The Louisiana budget of 1922, and the Arkansas of 1921, contain the reports arranged according to funds. Such an arrangement is in keeping with scientific budget making.

The Budget Message

An explanatory message usually accompanies the budget when presented to the legislature. The general context of these messages is fairly standardized. The usual plan is to give a review of the total income and expenditures. This is followed by suggestions for change in the revenue laws. Following this come recommendations for changes in the laws regarding the state administrative machinery. Often, as in Virginia and Wyoming, the budget message is used as the medium in which the general economic conditions of the state are surveyed. This practice seems unsound as there is little connection between the budget and reports of this type.[18]

The most important service of the message is to clearly present to the general public the appropriation limit beyond which the revenues will not permit expenditures to go. The public will not read the budget. It will read, however, at least a digest of the budget message, for this is printed as a matter of course on the front page of the newspapers. If the message clearly

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[17] See pp. 19–24.

[18] See Virginia, *Budget*, 1920–1922, p. XII; also Wyoming, *State Budget*, 1921–1923, pp. X–XII.

presents the relation between anticipated outgo and estimated expenditures, a public opinion will be created to prevent the passage of excess appropriations. The method most clearly delineating the outgo-income status is that of publishing the operation statement at the beginning of the message. This is the method employed in the Federal budget message. The New Jersey budget message of 1923 follows a similar practice. The result is to concentrate public attention on the keystone of sound public finance—a balanced revenue and expenditure program.

Comments on Existing Budgets

In order that the theories laid down above may be pinned to earth with practical applications, three typical budgets are briefly commented on here.

Arizona Budget of 1922.

The Arizona budget contains a letter of transmittal in which is printed an operation statement, proposed changes in laws and an estimate of the tax rate for the coming revenue period. A series of comparative statements is also given summarizing the expenditures, proposed and estimated, over a three-year period according to the object of expenditure, chief departments, and according to functions or activities. Lastly are printed the detailed expenditure statements arranged according to the chief activities. The comparative statements are accompanied by a series of cartwheel and bar charts. These place Arizona in advance of the other states in the simple presentation of the important facts regarding expenditures. The use of similar charts to show the revenues would be an excellent addition. The revenue statement in the letter of transmittal is good. It differentiates clearly between the types of taxes and between the indirect revenue expendable by the departments without appropriation and the direct revenue and also shows the estimated balance in the treasury. A statement showing the departments and institutions receiving the indirect revenue might well be added. The expenditure statements are not arranged according to the funds from which they are payable. Neither is a fund operation statement given for each fund.

The absence of both these practices prevents the budget from reaching its greatest usefulness.

Nevada Budget of 1921.

The Nevada budget goes farther in presenting information regarding the state of funds than any other, and is for this reason noteworthy. The general sequence of material follows: First appears recommendations for revenue legislation, and for changes in administrative laws; then appear fund statements showing the estimated condition of each fund during the appropriation period. Next, a series of tables showing the income from the tax laws, from the current departmental receipts, from interest on investments, from land contracts, from bond sales, and from the Federal Government subsidies is given. A general operation statement is next presented. Next appears a statement of the bonded debt and finally the detailed expenditure statements of the several spending agencies. All this information is useful and all is necessary for a real appropriation program. A suggested change is the publication of the operation statement in the letter of transmittal instead of in the midst of the other information. Another is the arrangement of the expenditure statements according to the funds from which they are payable.

Ohio Budget for 1921.

The material in the budget follows this arrangement:

(1) General summary of expenditures.
(2) Financial forecast showing the probable treasury balance at the close of the next appropriation period.
(3) Comparative statement of receipts and disbursements for preceding five years.
(4) Receipts for preceding five-year period classified according to the chief revenue laws, to source and according to collecting agency.
(5) Disbursements over the same five-year period, arranged according to functions and according to objects of expenditure.

(6) A statement of comparative governmental costs from the *Financial Statistics of States* published by the Federal Government.
(7) Detailed expenditures and estimates for the various agencies.

The chief criticism is that the receipts and disbursements are not classified according to funds. As there are but six or seven expenditure funds in Ohio, the need for classification is not as urgent here as in states where the fund segregation is more detailed.

This concludes the survey of control through the budget. It contains a study of the value of the budget as a means of securing control over administration and finance and of the considerations determining the most effective methods for preparing this controlling medium. The budget was shown to be of value not in securing efficiency and honesty in administration but in securing a balanced financial program—balanced as to expenditures and revenues and balanced as to the development of the several activities of the states. The apparatus necessary for the preparation of a scientific budget was shown to include expenditure and revenue reports, activity reports and correlated financial statements, and the principles determining types of reports were set down.

The next chapter deals with control through constant supervision of expenditures.

III

Routine Control Through the Governor

The limitations of budgetary control have been outlined. A budget system provides no constant and persistent supervision of the activities of the state. By its nature it cannot provide for much more than an equitable balancing of expenditures among the several spending agencies. It does not guarantee that the spending agencies will spend the funds intrusted to their care wisely and honestly. Nor does the governor's power to veto items in appropriation bills give the control necessary to efficiency.

In thirty-five of the states[1] the governor has the power to veto items in appropriation bills. The effect of this power is to give the governor a very real check on his administration. By a judicious use of this power, he may weed out of the government useless administrative machinery. To veto an item will, in a very simple manner, prevent useless services from continuing to absorb part of the state revenue.

In Pennsylvania the governor's item veto power has been exercised very widely. Log-rolling in the state legislature has caused a large excess of appropriations over revenue in the past. It has also caused departments and institutions with political influence to receive larger grants than they required. The result has been the sweeping use of the veto power. In 1913, the governor vetoed items totalling fifteen million—about one-sixth of the total appropriations. In 1915 the amount vetoed was merely five million, and in 1917 half a million less. The

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[1] *Constitution of Alabama*, Article X, Section 126; *Arizona*, V, 7; *Arkansas*, II, 17; *California*, IV, 16; *Colorado*, IV, 12; *Delaware*, III, 18; *Florida*, IV, 18; *Georgia*, V, Section 1, Clause 16; *Idaho*, IV, 11; *Illinois*, V, 16; *Kansas*, II, 14; *Kentucky*, 88; *Louisiana*, 77; *Maryland*, II, 17; *Michigan*, V, 37; *Minnesota*, IV, 11; *Mississippi*, IV, 73; *Missouri*, V, 13; *Montana*, VII, 13; *Nebraska*, V, 15; *New Jersey*, V, 7; *New Mexico*, IV, 22; *New York*, IV, 9; *North Dakota*, III, 80; *Ohio*, II, 16; *Oklahoma*, VI, 12; *Pennsylvania*, IV, 16; *South Carolina*, IV, 23; *South Dakota*, IV, 10; *Texas*, IV, 14; *Utah*, VII, 8; *Virginia*, V, 76; *Washington*, III, 12; *West Virginia*, VII, 15; *Wyoming*, IV, 9

low point in the past ten years was reached in 1919 when a trifling million and a third was lopped off the legislative appropriations. In 1921, however, the rebound came, carrying the vetoed items to the nineteen and a half million mark—approximately 16 per cent of the amount actually approved.[2] In Pennsylvania, not the legislature but the governor has made appropriations.

Though the power to veto items is an extensive one, yet it is a policy-determining power rather than one which will secure efficient administration. In its effect, it is similar to the budget system. It provides a method of securing a balanced financial program. Probably the effect of reducing appropriations will tend toward efficient operation, but not necessarily, for after an appropriation has been granted, control over it has ceased. A department may do with it as it pleases unless an additional method of control is supplied—a control which secures constant supervision over the spending of the several departments by the governor. It is this type of control which is taken up here.

Review of Existing Legislation

The persistent and rigorous control essential to efficient spending has been secured in several of the states by vesting in the governor or in a department directly subordinate to him plenary powers over expenditures. By plenary powers is meant not only the authority to determine whether past expenditures have been honestly made but whether they have been efficiently made. And not only power to investigate expenditures after they have been made but authority to approve or disapprove proposed expenditures of appropriated sums.

The creation of controlling agencies with power over routine financial activities is of recent origin. The movement—for a sufficient number of states have adopted the controlling organization to warrant terming it a movement—began in California in 1911 under Governor Hiram Johnson.[3] It was innovated here as a means of clearing a financial debacle. In the same

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[2] See Pennsylvania, *Pamphlet Laws*, 1913; *Appropriation Laws*, 1915, 1917, 1919, 1921, *in loco*.

[3] California, *Statutes*, 1911, Chapter 349.

year in Wisconsin, a central supervisory board was created.[4] Its powers, which shall be outlined later,[5] are not sufficiently broad to allow the movement for iron-fisted controlling machinery to be traced here. Illinois next adopted a system for constant control. Governor Frank Lowden was confronted in 1917 with difficulties similar to those which existed in California in 1911, and he fell back upon a controlling system as the way out of the fiscal wilderness. Since 1917, the number of states which have fallen in line, has increased rapidly. At the present time Nebraska, Ohio, Utah, Virginia, Washington, Texas, Michigan, Massachusetts, and New York also have more or less powerful controlling agencies.

A fundamental element in almost all the controlling machines is their dependence on the governors. Almost uniformly the power of appointment and removal of the heads of the agencies is placed in the governor's hands. Certain exceptions appear. These seem unfortunate.

The weak position of the average American governor has been thoroughly exposed in a series of articles on this subject,[6] and among those who have studied the problem the conclusion has been reached that an increase in the power of the governor is essential to good administration.[7] The governor is the sole state official who attracts the attention of the masses of the people. It is the governor who personifies the state government in the eyes of the *great majority*, who recognize not institutions but personalities. It is to the governor, therefore, that we look when we desire the government to accomplish things. It is logical that the means of accomplishing efficient government should be placed in the governor's hands.

This feeling has actuated most of the state legislatures which have attacked the problem of routine fiscal control. In Cali-

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[4] Wisconsin, *Laws*, 1911, Chapter 583.

[5] See p. 82.

[6] See, for example, Blue, "Relation of the Governor to the Organization of Executive Power in the States," in *Annals of the American Academy of Social and Political Science*, XVIII, 434 ff; and Crennan, *A Survey of State Executive Organization and a Plan of Reorganization*. The inaugural address of Charles Hughes on becoming Governor of New York in 1909 is also in point. See also the *Proceedings of the Conference of Governors*, 1913, *in loco*.

[7] *Ibid.*

fornia, for example, where as mentioned above, the movement for constant supervision of expenditures had its origin, a Board of Control of three members was created. The term "board"—implying an independent organization—was a misnomer or else camouflage. For the members are appointed by the governor directly and hold office at his pleasure.[8] In Illinois, Nebraska, and Ohio, departments of finance have been created[9] headed by a single official. These officials are appointed by the governor and the senate. In Illinois the term of office is for four years but the department head may be removed by the governor for incompetency at any time. In Ohio the power of the governor is made even stronger by the statement that the Secretary of Finance is to hold office at the pleasure of the governor. In Nebraska, a term of two years is provided but the secretary is removable by the governor. The three members of the Texas Board of Control are appointed by the governor and the Senate but may be removed by the governor.[10]

Several western states created controlling agencies recently, and in all the necessity of placing the appointment and removal of the heads of the supervisory organizations in the governor was recognized by the legislatures. The Director of the Department of Finance and Purchases of Utah is appointed by the governor and holds office at his pleasure.[11] The same is true of the Director of Efficiency of the state of Washington,[12] and of the chief official of the Department of Finance of Idaho.[13] In Missouri, the office of Commissioner of the Budget was created in 1921 to have sweeping financial powers. This office was never filled, as the referendum was invoked against the law creating it,[14] and at the November elections of 1922, the law was defeated. Massachusetts is the only state which has created a department with large powers over expenditures and has not placed the department under the direct control

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[8] California, *Statutes*, 1911, Chapter 349; 1921, Chapter 603.
[9] Illinois, *Laws*, 1917, pp. 2–36; 1921, p. 99; Nebraska, *Laws*, 1921, pp. 105–106, 112–117.
[10] Texas, *General Laws*, 1919, pp. 323–329.
[11] Utah, *Laws*, 1921, pp. 354–359.
[12] Washington, *Laws*, 1921, pp. 12–13, 29–30.
[13] Idaho, *Compiled Statutes*, 1919, Sections 274, 285, 330, 245, 355–356, 2882.
[14] Missouri, *Laws*, 1921, p. 170.

of the governor. Here a Commission of Finance and Administration has been provided, with powers to approve every expenditure. The members of this commission are appointed by the governor and council and are removed in the same manner.[15]

In New York, a Board of Estimate and Control exists with limited powers over expenditures.[16] This is composed of the governor, the chairman of the Finance Committee of the Senate, the chairman of the Ways and Means Committee of the House, and the state comptroller, with the governor as presiding officer. The term of office of the members is coincident with the term of their regular offices. Removal is, of course, impossible except by impeachment of the state officers or removal by the legislature of the committee chairmen. In Wisconsin a similar situation exists. The Wisconsin Board of Public Affairs is composed of the governor, secretary of state, president *pro tempore* of the Senate, speaker of the House, the chairman of the Senate and House Finance Committees, and three other persons appointed by the governor, with the advice of the Senate. The latter may be removed by the governor for cause after public hearing.[17]

In Michigan the State Administrative Board was created in 1921. It is composed entirely of state officers. The governor, secretary of state, state treasurer, auditor-general, highway commissioner, attorney-general, and superintendent of public instruction are included.[18]

The method of appointment, as outlined above, illustrates the general trend toward increased power for the governor. The powers of the several agencies illustrate even better the tendency to have faith in the chief executive. The powers vary all the way from the authority to approve of both proposed expenditures and of bills rendered after the services have been performed, to merely the power to audit the books of the various departments.

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[15] Massachusetts, *Acts*, 1922, Chapter 545.
[16] New York, *Laws*, 1921, Chapter 336.
[17] Wisconsin, *Laws*, 1911, Chapters 5 and 3; 1913, Chapter 728; 1915, Chapter 606; 1917, Chapter 300; 1919, Chapters 3 and 9.
[18] Michigan, *Public Acts*, 1921, pp. 5–7.

The powers of the Department of Finance of Ohio represent the limit to which the authority to supervise expenditures has been granted. The parts of the law in point follow:

"The department of finance shall have power to exercise control over the financial transactions of all departments, offices and institutions, excepting the judicial and legislative departments, as follows:

"(1) By prescribing and requiring the installation of a uniform system of accounting and reporting, as to accruals of revenue and expenditures necessary in certifying that funds are available and adequate to meet contracts and obligations.

"(2) By prescribing and requiring uniform order and invoice forms and forms for financial reports and statements, and by requiring financial reports and statements.

"(3) By requiring itemized statements of expenditures proposed for any specified future period to be submitted to the department, and by approving or disapproving all or any part of such proposed expenditures.

"(4) By requiring orders, invoices, claims, vouchers or payrolls to be submitted to the department, where such submission is prescribed by law or where the governor shall deem such submission necessary, and by approving or disapproving such orders, invoices, claims, vouchers or payrolls.

"(5) By supervising and examining accounts of the expenditures and receipts of public money and the disposition and use of public property, in connection with the administration of the state budget.

"(6) By prescribing the manner of certifying that funds are available and adequate to meet contracts and obligations.

"(7) By prescribing uniform rules governing forms of specifications, advertisements for proposal, opening of bids, making of awards and contracts, governing purchases of supplies and performance of work.

"(8) By reporting to the attorney-general for such action, civil or criminal, as the attorney-general may deem necessary all facts showing illegal expenditures of the public money or misappropriation of public property.

"(9) By prescribing rules and regulations for carrying into effect any or all of the other powers herein granted."[19]

Stripped of legal terminology, this law means that a central organization, dependent directly upon the representative of the people—the governor—has power to watch every expenditure made by any state official.[20] This power includes the right to authorize expenditures as well as the power to hold a post-mortem after the expenditures have been made. The powers granted are complete and definite. No limitations prevent the governor from governing in Ohio.

The powers of the Department of Finance and Purchase of Utah are based on a law copied almost verbatim from that of Ohio.[21] In Illinois, the powers are not quite so sweeping. The Illinois law differs in that no power is granted to the Department of Finance to approve or disapprove of orders for expenditures before they are made. For the rest the laws of Illinois and Ohio are similar. The Ohio law is, of course, based on that of Illinois.[22] There is one further distinction in the laws, although none exists in practice between Ohio and Illinois. This is that the Ohio law requires the submission of a report showing a scheme of future expenditures.[23] In Illinois, the spending agencies divide their appropriations over the entire period and this schedule is approved by the department as in Ohio. But no direct legal basis for the practice exists, except in the power to prescribe forms for financial reports and statements.[24]

The Nebraska law is in the main a copy of the Illinois. The legislature of 1921 specified a change in the code as adopted in 1919 from that of Illinois. This change is presented here:

"SEC. 15. *Quarterly estimates.*—No appropriation shall become available for expenditure to any expending agency until such department shall submit to the Department of Finance quarterly estimates of the amount required for each activity

[19] Ohio, *Laws*, 1921, pp. 105–106, 112–117.
[20] Except, of course, judicial and legislative officials.
[21] Utah, *Laws*, 1921, pp. 354–359.
[22] Illinois, *Laws*, 1917, pp. 2–36; Ohio, *Laws*, 1921, pp. 105–106, 112–117.
[23] See Section 3 of the law above.
[24] See Section 36, Clause 2, of the Civil Administrative Code, *Laws*, 1917, pp. 2–36.

to be carried on, and such estimate shall have been approved by the governor; and the accounts shall be kept and reports rendered showing the expenditures for each such purpose."[25]

The effect of this section is to give a legal basis to a practice similar to that of Illinois. Note especially the statement that the governor is to approve these quarterly estimates.

The powers of the California Department of Finance include the power to approve every claim against an appropriation before it is paid, the power to examine the books of the several agencies, the authority to count the money in the state treasury monthly at unexpected and uncertain hours, the power, with the consent of the governor, to authorize the creation of deficiencies in any appropriation in cases of actual necessity, to approve all contracts for the purchase of materials and supplies, and to install a uniform system of accounting.[26] The powers of the Massachusetts Department of Finance differ in no essential point from the powers of the California department and include the authority to approve vouchers, to approve all published financial reports, to require any financial reports at monthly intervals, and to set up a uniform accounting system.[27] The powers of the Texas Board of Control parallel closely those of the California and Massachusetts departments.[28]

The Missouri budget law provided the Commissioner of the Budget with powers to approve all contracts for the purchase of capital improvements, repairs, supplies and materials of all spending agencies except those headed by elected officials, and to reject, with the approval of the governor, claims for materials and supplies and work done for the state.[29] The Department of Efficiency of the state of Washington has no powers to approve vouchers but it may audit all public offices, prescribe a uniform system of accounts, and require the installation and use of a proprietary accounting system by all the spending agencies.[30]

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[25] Nebraska, *Laws*, 1921, p. 671.
[26] California, *Statutes*, 1911, Chapter 349.
[27] Massachusetts, *Acts*, 1922, Chapter 545.
[28] Texas, *General Laws*, 1919, pp. 323–329.
[29] Missouri, *Laws*, 1921, p. 170.
[30] Washington, *Laws*, 1921, pp. 12–13, 29–30.

The powers of the Department of Finance as laid down in the Idaho Administrative Code of 1919 are very similar to the powers of the Department of Efficiency of Washington, in respect to control over expenditures. General power to supervise and examine the expenditures and accounts of the spending agencies has been granted.[31]

The Wisconsin Board of Public Affairs has power to prescribe a uniform accounting system and audit all accounts. It has no general powers to approve vouchers.[32] The Board of Estimate and Control of New York has limited powers. Provided no existing statute prohibits, the board may order a change in the operation of a department and this, of course, affects the finances. It may examine the books of any department. It determines what purchases are to be made jointly by the purchasing units and actually lets contracts. Every expenditure for personal service from a lump-sum appropriation to a newly created or reorganized spending agency requires the approval of the board.[33] The powers of the State Administrative Board of Michigan are large. These include the power to supervise the operation of the departments and to order and compel desired changes, to install a uniform accounting system and to supervise purchasing.[34] In Arizona no spending agency may use more than a fourth of an appropriation for salaries, general operations, or travel in any fiscal quarter without written approval of the governor and auditor jointly.[35] This allows the governor to prevent the expenditure of a large part of an appropriation in the beginning of a fiscal period with the resulting necessity for passing a deficiency bill at the next legislature.

In addition to the duties first outlined, most of these central supervisory organizations have charge of the budget work. The fact that expenditure information is readily obtained through either the power to approve vouchers or to audit the books, makes the placing of budget making in these organiza-

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[31] Idaho, *Compiled Statutes*, 1919, Sections 245, 275, 285, 330, 355–356, 2882.

[32] Wisconsin, *Laws*, 1911, Chapter 583; 1913,Chapter 728; 1915, Chapter 606; 1917, Chapter 300; 1919, Chapter 389.

[33] New York, *Laws*, 1921, Chapter 336.

[34] Michigan, *Public Acts*, 1921, pp. 5–7.

[35] Arizona, *Laws*, 1922, Chapter 35.

tions logical. Furthermore, they are for the most part dependent on the governor. As a result, to have them prepare the budget is in keeping with modern theories regarding centralization of budgetary responsibility in a single executive. Most of these agencies, however, have duties which do not fit in with fiscal control nearly as readily as does the duty of preparing the budget. In some of the Departments of Finance is included the state tax commission.[36] The Department of Finance of Ohio receives the appropriation for the operation of the state bindery.[37] The Department of Finance of California by a recent act[38] took over the work of the purchasing department, department of capitol grounds and buildings, of supervising the children's agents, of the capital planning commission, of the department of state printing, of the collection of motor vehicle taxes, of the state library and became trustee of a group of state institutions. This represents the limit to which routine administrative work has been loaded on a supervisory organization. To mix supervision with routine administration is to provide no supervision of the administrative work of the supervisory agency. If theoretical considerations regarding the separation of supervisory and routine administrative work have any value, the result in the long run must prove unfortunate.

Certain of the agencies have duties which involve supervision other than controlling expenditures. Almost all are given power to make efficiency surveys.[39] Several are given power to supervise general purchasing.[40] When this duty involves the actual operation of a purchasing department instead of merely the fixing of standards and possibly the letting of contracts, it is doubtful whether the department should carry on this function. Supervision of printing—the right to edit the reports and to prescribe the form, context and number—has been vested in several of the organizations. The Massachusetts organization is an example.[41] In the Massachusetts Department of Finance has been established a division of personnel and standardization with power to standardize salaries, materials and supplies.[42]

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[36] Illinois, *Laws*, 1917, pp. 2–36; Ohio, *Laws*, 1921, pp. 105–106, 112–117.
[37] Ohio, *Laws*, 1921, pp. 428–429.
[38] California, *Statutes*, 1921, Chapter 603.

From this review of the laws concerning fiscal control, the following tendencies may be noted:

1. There is a distinct trend toward constant centralized control over the expenditures of the various spending agencies in the state.

2. There is a trend toward increasing the power of the governor by placing the controlling agencies under his direction.

3. There is a tendency to confuse supervisory and administration functions, and to place both types in the supervisory departments.

General Considerations Concerning Control

The reasons for increasing the power of the governor have already been outlined. State administration in the main has been inefficient. There has been a decentralization of power and of responsibility. This has led to inefficiency—or possibly it would be more accurate to state that both have existed from the beginning as co-existent characteristics of our political system. Nor can the only state official who comes before the public eye and who is, therefore, looked to for better administration change the situation. In many states the elected officials are numerous and these are on the same plane as the governor for they derive their power from the same source. Moreover, appointed officials are usually subject to the approval of the legislature or at least the upper house.[43]

The creation of a controlling system gives the governor a lever with which to pry loose inefficient methods and men and this makes the administration operate efficiently. Authority to approve every expenditure gives the governor power to

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[39] New York, *Laws*, 1921, Chapter 336. California, *Statutes*, 1921, Chapter 349; Ohio, *Laws*, 1921, pp. 105–106, 112–117; Idaho, *Compiled Statutes*, 1919, Sections 245, 275, 285, 330, 355–356, 2882; Washington, *Laws*, 1921, pp. 12–13, 29–30; Massachusetts, *Acts*, 1922, Chapter 545; Wisconsin, *Laws*, 1911, Chapter 58.

[40] Ohio, *Laws*, 1921, pp. 105–106, 112–117; California, *Statutes*, 1921, Chapter 603; Massachusetts, *Acts*, 1922, Chapter 545; New York, *Laws*, 1921, Chapter 336.

[41] Massachusetts, *Acts*, 1922, Chapter 545.

[42] *Ibid.*

[43] Crennan, *A Survey of State Executive Organization and a Plan of Reorganization*, p. 8.

(1) nip in the bud a questionable expenditure; (2) force his own policies upon an independent official by simply refusing to validate the payrolls; (3) force the spending agencies to live within their means. By questionable expenditures, as used above, is meant not only dishonest but inefficient or unnecessary and, therefore, wasteful expenditures.

The following vouchers were held up in Illinois in one afternoon by the Department of Finance: One for payment of a padded expense account; another for a payment for soft coal at $8.00 a ton—an amount quite above the market price; another for office furniture of questionable necessity and excessive price, and another for a payment to one of the railroads operating in Illinois to cover what the voucher stated was "depreciation." This is typical of the work done by the controlling department in that state.

The concentration of voucher approval in a representative of the governor would permit centralization of the state bookkeeping. By sending all vouchers to the central controlling office, the bookkeeping departments of the various spending agencies could be in large part abolished. As the original documents—the vouchers—pass through the office, all necessary records could be made. The spending agencies need keep only the original documents to fall back upon in case a question of facts should arise.

In the state of Nebraska, the bookkeeping for all the departments but those headed by elected officers is actually centralized in the office of the Department of Finance and is being successfully carried on.[44] In the state of Ohio, a centralized system is advocated. The present governor, A. V. Donahey, when auditor of the state of Ohio, advanced a plea for centralizing disbursement bookkeeping in the auditor's office on the ground that it would eliminate 50 per cent of the bookkeeping work.[45] The same general argument holds true for centralization whether in the auditor's or the controlling department's offices. The Director of Finance and Purchase of the state of Utah concurs

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[44] This is based on letter from Mr. M. Butler, Acting Secretary of Finance, dated February 21, 1923.

[45] See Ohio, *Annual Report Auditor of State*, 1919, pp. 8–9.

in the judgment that a centralized bookkeeping system would be a valuable improvement. In the report of his department for 1923,[46] he suggests a central accounting department similar to those in well-conducted business concerns, on the ground that a large saving both in time and money would result. The State Accountant of Montana asserts that the adoption of a central office would allow a saving of 60 per cent in bookkeepers' salaries and would permit rapid action on claims and secure cash discounts which the state now loses. In addition it would furnish a comprehensive idea of the business standing of the state without delay.[47]

This plan does not, of course, involve centralizing project accounting in the controlling office, but only a few departments, *i. e.*, forestry and highway, need to keep costs of projects—and project accounting is totally separate from disbursement accounting. One system is based on internal records arising in the operation of the departments, the other, on records coming from without—from the agents selling goods or services to the states.

One aspect of control has not yet been discussed. This deals with the manner in which the spending agencies are forced to live within their income. A budget system tends to limit appropriations to the estimated income. But more than a budget system is necessary in order to confine the expenditures of the several departments to their appropriations. The tendency of the spending agencies to use up the bulk of an appropriation within the first three-quarters of an appropriation period and then petition the legislature to grant a deficiency appropriation to cover the fourth quarter is general. In Pennsylvania the deficiency appropriations ran, in 1921, to over eight million, and in 1923, to over six million.[48] In Nebraska, up to 1921, the situation was similar.[49] In Maine recently, the budget committee recommended that three and a half million be appropriated for deficits in regular appropriations.[50] The existence

[46] Utah, *First Report of the Department of Finance and Purchase*, 1923, p. 28.
[47] Montana, *Legislative Budget*, 1923, p. 3.
[48] Pennsylvania, *Appropriation Laws*, 1921, *in loco*. Pennsylvania, *Budget*, 1923, p. 3.
[49] Nebraska, *Laws*, 1917, pp. 609–620; 1919, pp. 1084–1086; 1095–1111.
[50] Maine, *Report of the Committee on the Budget*, 1921, p. 30.

of the deficit-creating habit makes an impossible situation in state finances. It makes a policy of "pay as you go" for the state out of the question. For with every department spending as it pleases, no real estimate of total expenditures can be made and no scientific adjustment of revenue to outgo can be approximated. When a legislature has granted departments deficiency requests over a long period of time, it really has sacrificed its control over appropriations and has allowed the intolerable status to arrive in which the departments all have *carte blanche* to go the limit. The elimination of this disturbing factor in state finance is a primary object of the controlling system. [51]

The Relation of the New Organization to the Auditor

The creation of administrative organizations such as those just described must inevitably bring up the question of the relation between the new organizations and the auditors. The function of the average state auditor has been to approve every voucher. This is exactly the function which it is proposed that the governor's agent do. This brings up the question of duplication and conflict.

The correct solution would seem to be to reserve for the governor's agent the function of auditing each expenditure as it is made and to grant to the auditor the function of auditing the completed records at intervals of six months. This division of labor would end duplication. It would, however, rest on a much more secure basis. The power of approving each expenditure—which an auditor now possesses—gives him unlimited opportunity to thwart and hinder the governor. The auditor is usually an elected official totally independent of the governor. To continue to grant him voucher approval would be to continue him in an invulnerable position where he may snipe at the governor at leisure. The solution proposed here would end this evil. At the same time it would permit a check on the governor through the power to post-audit. In addition it would be in accord with the principle which holds that as a governor bears the responsibility for making the administration honest

[51] See pp. 80–82 for the methods used in the states to eliminate deficiency appropriations.

and efficient, he should have the tools with which to force efficiency and honesty on the administration.

In Illinois the situation has solved itself very pleasantly. The auditor simply accepts the audit of the Department of Finance, draws his warrant on the treasurer without question, and devotes his time to the heavy task of collecting the state's revenues. This may possibly be the ultimate solution. It seems fatally weak, however, in that it removes all check on the governor.

The Machinery for Constant Control

The mechanism outlined in this part of this chapter may be employed by a controlling agency whether it be responsible to the governor, to the auditor, or to an administrative board. For whether centralized in the governor or in any other official or group, the machinery of supervision—the practical operation of control—can be the same.

A General View

The general scheme of control involves four distinct steps:

1. Apportionment of the departmental appropriation among the various divisions or bureaus.
2. Allotment of the divisional portion among the several major objects of expenditure according to the months in which each is to be purchased.
3. Approval of every expense voucher or the audit of the books of the spending agencies.
4. Presentation to the governor of a series of monthly reports, summarizing the fiscal transactions.

The first step is necessary when the legislature may be persuaded to grant lump sum appropriations to the various departments instead of to the minor divisions of the departments. In such event, the department heads confer with the heads of the divisions and bureaus and arrange for distributing the appropriation among the activities which the departments carry on. The distribution is then submitted to the controlling agency for approval. The second step involves planning the manner in which the amount distributed to each division is to

FORM A-1

APPORTIONMENT
OF THE APPROPRIATION TO
DEPARTMENT OR OTHER AGENCY————————
AMONG THE SEVERAL DIVISIONS OR BUREAUS

	DIVISION OR BUREAU	AMOUNT

APPROVALS

FOR THE DEPARTMENT ————————

DATE ———————— TITLE ————————

DIRECTOR OF FINANCE ————————

DATE ———————— PER ————————

FORM A-2

ALLOTMENT RECORD—FIRST YEAR OF BIENNIUM

DEPARTMENT OR OTHER AGENCY _____

DIVISION OR BUREAU _____

TOTAL FOR FIRST YEAR _____

TOTAL FOR SECOND YEAR _____

FIRST YEAR ALLOTMENT BY MONTHS

MONTH	SALARIES AND WAGES	MATERIALS AND SUPPLIES	TRAVELING EXPENSES	POSTAGE TELEPHONE AND EXPRESS	PRINTING AND BINDING	RENT	REPAIRS UNDER CONTRACT
June July August							
September October November							
December January February							
March April May							
Totals							

	NEWSPAPER ADVERTISING	LIGHT, WATER, POWER	SUBSIDIES	EQUIPMENT	LANDS AND BUILDINGS CONSTRUCTION BY CONTRACT	OTHER ITEMS	RESERVE
June July August							
September October November							
December January February							
March April May							
Totals							

APPROVALS

FOR THE DIVISION
DATE _____ TITLE _____

FOR THE DEPARTMENT
DATE _____ TITLE _____

DIRECTOR OF FINANCE
DATE _____ PER _____

be spent for each of the major items of expenditure. It involves allotting a certain amount to salaries and wages, another to materials and supplies, and another to travel and to each of the other expenditure headings. In addition it involves spreading the divisional allotment over the entire appropriation period. This necessitates looking ahead at least a year and deciding in what months the work will be heavy and in what months light, and arranging the expenditure schedule accordingly. The information is submitted to the central organization for approval. This organization is thus enabled to determine the general sequence of expenditures by months through totaling the various divisional schedules. The summary schedule may be compared with the monthly schedule of probable receipts. If there is no serious difference between proposed expenditures and anticipated income, the divisional schedules may be approved. Otherwise, preparation may be made to curtail certain work during periods of slight income or else to borrow in amounts sufficient to bridge the temporary deficits in revenue. The effect of the entire process is to prevent the accumulation of appropriation deficits at the end of an appropriation period. Furthermore, revenue deficiencies are prevented because information regarding the necessity for the issuance of temporary treasury certificates is automatically furnished.

The third step is either the approval of every expenditure as it is made or else the constant audit of the books of the spending agencies. The object of this is to secure information concerning the efficiency of the administration. The last step is the preparation for the governor of summary reports showing the relation of expenditures to appropriations and of expenditures to income. With information of this nature at his disposal, the governor will be able to direct expenditures so that the income of the state will be sufficient to cover the outgo. Incidentally, he will have information to use in forming estimates as to the efficiency of the various departments and of the department heads. Certainly he will have sufficient information to allow him to ask intelligent questions regarding the operation of the various divisions and bureaus and even this is denied the average state governor at the present time.

Apportioning the Lump Sum Appropriations

Form A-1 shown on page 89 illustrates the blank needed to allow the various departments to divide the lump sum appropriations among the several divisions or bureaus. The form is almost self-explanatory. The first column is for the divisions or bureaus and the second for the amount apportioned to each. At the bottom, space is provided for approval by the head of the department and by the head of the controlling agency.

Allotting the Divisional Appropriation

The second form suggested, Form A-2, is entitled *Allotment Record*. It is to be made out by divisions or bureaus. In case the appropriations are biennial, the amounts of the appropriation available in each of the years is stated directly below the title of the division.

There are two tiers of figures as the number of account titles prevents showing them on one line without making the sheet too large for an ordinary typewriter. In the first column are shown the months. These are from June to May because the fiscal year in Pennsylvania ends on the thirty-first of May. In the other columns the standard account titles are given. The last column in the second tier is entitled "reserve." Mistakes must invariably occur in making estimates a year ahead and by requiring the departments to keep a 10 per cent reserve, these may be remedied without affecting the general distribution. There are other reasons justifying the keeping of a reserve. Errors may be made in estimating income and by placing an amount in reserve, expenditures may be cut without disturbing anything in the schedule but the last column. In the Federal Government, the departments are expected to keep a 10 per cent reserve. Here the object has been to encourage saving. The reserve may not be touched without the approval of the budget office. The fact that bother is involved before the reserve may be spent tends to make the usual laws of inertia favor saving instead of spending.

This form is almost a direct copy of that used in Illinois. It has proved practical there, and the Superintendent of the Budget of Illinois, Mr. William McLain, looks upon this pro-

cedure as fundamental in control in that state. No reserve is kept in Illinois at the present time, but a reserve system will probably be adopted. A system is in use in Ohio and is proving equally valuable. Here a 15 per cent reserve is required as a minimum but this is available for expenditure at any time. The reserve is designed to secure flexibility.[52] These schedules are subject to review quarterly. In Nebraska, the same general plan is in use,[53] but the estimates are made by quarters instead of by months. Estimating by months seems the better practice as the three-month period is too long to allow the constant control desired.

In order to determine whether to approve the schedules of expenditures, a schedule of income must be prepared showing the anticipated income. Form A-3, shown on page 95 is suggested to secure this information. This form is virtually self-explanatory. Notice that the income statements are to be made by funds.

Form A-4, on page 96, is suggested for use in reconciling income and proposed expenditures. The expenditures and income of every fund need be balanced in a sheet of this type. The result will be shown clearly in column 4 (Deficit or Surplus of Income). A deficit indicates that a loan is necessary or that a revision of the expenditure schedules must be undertaken. A surplus will indicate that capital expenditures might be transferred to that month without disturbing the fiscal situation.

Recording Appropriation Encumbrances

A type of information essential to control is an accurate record of the encumbrances made from time to time against appropriations. This knowledge is essential or the spending agencies may create obligations against an appropriation in excess of the actual grant or to such an amount for one expenditure as to make a deficiency appropriation to cover other expenditures necessary. Therefore, Form A-5, the *Encumbrance Voucher*, is suggested. This is to be filed with the controlling

[52] See Ohio, Department of Finance, *Financial Control Bulletin 8*, p. 4.
[53] See Form F-501-3000, *Departmental Estimate*, of the Nebraska Department of Finance.

FORM A-3

STATEMENT OF ANTICIPATED INCOME

_____FUND

COLLECTING AGENCY_____ DATE _____

OFFICER MAKING REPORT_____

REVENUE LAW_____

	MONTH	AMOUNT	
	December January February		
	March April May		
	June July August		
	September October November		
	Totals		

office whenever a contract is made which entails a liability against an appropriation. Contracts for materials and supplies, for equipment and apparatus, for land, buildings and construction, for services of various kinds, are all recorded on this form.

In some states it has been considered advisable to give the control office authority to approve or reject all proposed contracts. For example, in California and in Ohio[54] the controlling

[54] California, *Statutes*, 1911, Chapter 349; 1921, Chapter 603; Ohio, *Laws*, 1921, pp. 105–106. 112–117.

FORM A-4

COMPARATIVE STATEMENT
OF ANTICIPATED INCOME AND OF ALLOTMENTS
OF THE

_____FUND

	MONTH	ANTICIPATED INCOME	ALLOTMENTS	DEFICIT OR SURPLUS OF INCOME	REMARKS
	June July August				
	September October November				
	December January February				
	March April May				
	Totals				

department has the power to approve of all contracts for materials and supplies. This power is not exercised in every case. In Ohio only amounts of a thousand dollars or more are submitted to the Director of Finance for approval.[55] In California the law of 1921 gives the Department of Finance power, with the approval of the governor, to relinquish or resume control over contracts.[56] But whether exercised or not, and

[55] Ohio, Department of Finance, *Financial Control Bulletin 6*, p. 7.
[56] California, *Statutes*, 1921, Chapter 603.

FORM A-5

ENCUMBRANCE VOUCHER

DATE———————

DEPARTMENT OR OTHER AGENCY———————

DIVISION OR BUREAU———————

The order for service or for the purchase of materials, supplies, equipment, lands, buildings, constructions, etc., listed below is payable from the appropriation for

———————

(Give full details as to price, quantity, etc., below)

———————

———————

APPROVALS

FOR THE DIVISION ———————

DATE ——————— TITLE ———————

FOR THE DEPARTMENT ———————

DATE ——————— TITLE ———————

DIRECTOR OF FINANCE ———————

DATE ——————— PER ———————

FORM A-6 NUMBER———

VOUCHER

DEPARTMENT OR OTHER AGENCY———

DIVISION OR BUREAU———

PAY TO———DATE———

ADDRESS———

PAYABLE FROM APPROPRIATION FOR———

———

CHARGE TO ACCOUNTING CLASSIFICATION ———

(Pin all data—contracts, invoices, bills, etc., here. Give quantity, unit price, and amount and any other information below)

APPROVALS

FOR THE DIVISION ———

DATE ——— TITLE ———

FOR THE DEPARTMENT ———

DATE ——— TITLE ———

DIRECTOR OF FINANCE ———

DATE ——— PER ———

even whether the power to approve has been granted or not, a record of all encumbrances should be kept by the controlling office in order to prevent expenditures from exceeding appropriations.

In both Illinois and Ohio, all encumbrance vouchers are kept in an "Unfilled Order File." An inventory of this file shows the bulk of the liabilities outstanding against the appropriations. When bills are received to cover the contracts, the "Unfilled Order Files" are cleared and the bills and contracts are placed together in a second file termed the "Orders Filled and Bills Holding File." When the divisions send the vouchers for payment, the second file is cleared and the bills and contracts are placed in a third file, the "Orders Filled and Bills Passed File." In this way a complete record is kept of the progress of all encumbrances and at any time the obligations against any appropriation may be quickly ascertained.[57]

In Illinois only the departments keep these records. In Ohio both the departments and the control office keep records of this type. There is no reason, however, why the entire work should not be centralized in the central office.

Paying Claims

For carrying on the work of approving claims three forms are suggested. These are based on those used in Ohio, Illinois, Arizona and Nebraska. The titles of the forms follow: Form A-6, *Voucher*. Form A-7, *Schedule of Vouchers*. Form A-8, *Voucher Register*.

After a bill has been rendered to a division and after the division head has satisfied himself as to the justness of the claim, a voucher—a statement that the bill is valid—is sent to the control office. Form A-6, shown on page 98, is suggested as the uniform blank for this purpose. No very detailed description is necessary. On the third line of the heading is written the name of the payee and the date. On the next the payee's address. Then is given the appropriation from which the bill

[57] See Ohio, Department of Finance, *Financial Control Bulletin 8*, pp. 44, 45. See also, Illinois, Department of Finance, *Finance Bulletin 4*.

is to be paid. At the bottom of the heading appears the accounting classification to which the bill is to be charged. If the division keeps no records—that is, if the recording is left to the control office and only duplicates of the original records are kept by the division—the accounting classification need not be filled in. However, if a register is kept in the division, this blank should be filled in in order that the central office and the division office may classify the voucher in the same manner. In the large blank is to be written full details regarding the quantity, unit price and total price. In the space above is to be pinned all data regarding the purchase—contract, invoices, bills, and any other original records. Below are to be written the various approvals. Such a voucher need not be used for payrolls but instead an ordinary commercial payroll suffices. This voucher is almost a complete copy of that used in Illinois. The voucher used in Ohio is similar. For convenience on the reverse of the Ohio voucher, the account titles are printed. This aids in classifying the expenditures and is probably valuable, especially when the segregation of expenditures according to a uniform plan is just introduced.[58]

Form A-7, *Schedule of Vouchers*, shown on page 101, is suggested to accompany all the vouchers sent to the controlling office in any one day. This furnishes a convenient record of all vouchers presented to the controlling agency. Duplicates may be kept by the division and the controlling agency, as well as by the auditor who, of course, keeps the original documents accompanying the voucher schedule. At the extreme left is a column for the division voucher number. Next comes the column for the payee. Following this is the amount. At the right is the auditor's warrant number. The form followed here is again that used in Illinois.

Form A-8, the *Voucher Register*, has already been discussed.[59] This is the only book which need be kept for expenditures. As the vouchers pass through the controlling office, records of them may be placed in the register. If the vouchers are filed in the

[58] Of course, in Ohio, segregation has been in use since 1913. See p. 14.
[59] See p. 43 for discussion and p. 102 for reproduction of the form.

FORM A-7

SCHEDULE OF VOUCHERS

DATE———————

DEPARTMENT OR OTHER AGENCY———————

DIVISION OR BUREAU———————

PAYABLE FROM APPROPRIATION FOR———————

INCLUDING VOUCHERS NUMBERED———————

	DIVISION NO.	PAYEE	AMOUNT	WARRANT NUMBER	

FORM A-8

VOUCHER REGISTER

DRAWN AGAINST APPROPRIATION FOR———————

	DIVISION NO.	PAYEE	TOTAL					ACCT. TITLES			

office of the auditor according to the names of the payees, and if the vouchers are registered according to division numbers, any entry may be readily found.

To clarify: Forms A-5 to A-8 give a controlling agency the following data: (1) A record of all obligations; (2) a record of all expenditures.

A contract is made. Form A-5 is filled in by the division and sent to the control office. The bill for the services rendered under the contract arrives at the division office. A voucher, Form A-6, is typed, signed, and transmitted with the schedule of vouchers, Form A-7, to the control office. Here it is approved and sent to the auditor after being registered in the Register of Vouchers, Form A-8. This, in brief, is the routine proposed here and is approximately that followed in the states which have control—notably Illinois and Ohio.

The cost of operating a system of this type has been found very small. In Illinois two comptometer operators receive and check all the vouchers which arrive at the department. After being checked as to the additions and completeness, the vouchers are passed to an expert who compares prices of materials and supplies with prices current and investigates purchases to find whether they were necessary. After the vouchers are approved, they are entered on a voucher register by two clerks and sent on to the auditor for payment. One clerk keeps the cash book maintained in the office of the auditor. In addition to the central accounting office, each division maintains a set of books. This increases the cost of the system. The divisional bookkeeping is entirely unnecessary, as it merely duplicates the work of the central office. Neither in Illinois does this method of bookkeeping and of voucher approval consume a great deal of time. The vouchers remain in the office of the Department of Finance but a day or two. The divisions place pink markers on all bills carrying discounts. These are given precedence and are paid at once, but the average bill is paid within less than ten days. The force outlined above handles eighty-nine thousand vouchers annually.

In order to reconcile the books of the division and of the controlling agency, a monthly report showing all vouchers

passed with the account to which they are charged is sent from the division to the central office. The use of this form, Form F-12, entitled *Sub-classification of Vouchers Passed for Payment*, prevents any serious discrepancy from arising.

The Monthly Reports to the Governor

Furnishing information to the governor is the last step in the controlling system. It is also one of the most important. For if the governor is to be responsible for the scientific management of the administration, he must be regularly informed of the financial status of the commonwealth. In preparing monthly report forms, the many activities of a governor must be kept in mind and the reports must, therefore, be in as condensed a form as possible. Danger spots should be given conspicuous places on the forms so that time will not be used in searching for the meaning which a report carries. Points of special importance should be noted conspicuously. The fiscal status should be so clearly indicated that a governor in half an hour's time may inform himself of the manner in which the state's income and outgo have acted during the past month.

The governor is interested in two sets of figures: (1) figures showing the relation of appropriations and expenditures; (2) figures showing the relation of appropriations and revenues.

Reports Showing the Relation of Appropriations and Expenditures

Form A-9, shown on page 106, is the report designed to contain the first set of figures. This report shows:

1. The cash actually paid from each appropriation.
2. The vouchers which have been drawn by the divisions but which have not yet been approved.
3. The allotment to date, that is, the amount which the schedule of expenditures filed at the beginning of the fiscal period shows as the estimated expenditures to date.
4. The difference between the estimated expenditures—the allotment, and the actual expenditures—the warrants drawn and vouchers holding at the date of the report.

5. The extent to which the balance of the appropriation is encumbered.

6. The free balance—the amount for whose expenditure no provision has been made.

7. The chief objects purchased with the funds.

The governor is particularly interested in one item in the report—the surplus or deficit of the allotment shown in the sixth column of the report. This shows him whether the expenditures are being made on schedule. A good plan is to underline deficits in red ink. This is followed in Illinois where the form suggested in this report was developed. Reports unmarred by a red line need not receive more than passing attention from the governor. Reports showing a red danger signal should receive intensive attention, for it is the departments from which these come which are running up deficits and it is these departments which will probably be ready to ask the legislature for an additional grant. The governor will furthermore be interested in noting the items purchased with the funds. These reports will provide the information necessary for an efficient survey.

The form requires little explanation. It is to be filled according to the minor organization units, the bureaus and divisions of the departments. In the upper right corner a space has been provided for the month. At the base of the heading a space is given for the page of the statutes on which the appropriation law appears. This may be found unnecessary after the system is installed, but at the beginning will probably be of value. A blank for the fund from which the expenditures are made is given at the lower right corner of the heading. It is essential that expenditure reports be segregated according to funds. Otherwise a great deal of confusion will occur when an attempt is made to determine the status of the several state funds. If a spending agency has appropriations payable from several separate funds, a separate report for each should be requested. In the first column appear the standard account titles together with the reserve. These are the basis on which the report is built. Also the total allotment of the appropriation for the entire period is given here while the entire appropriation appears

FORM A-9

APPROPRIATION REPORT

DEPARTMENT OR OTHER AGENCY _____

DIVISION OR BUREAU _____ MONTH OF

FUND _____

ACCOUNT TITLES	WARRANTS DRAWN TO DATE	VOUCHERS HOLDING	TOTAL VOUCHERS HOLDING AND WARRANTS	ALLOTMENTS TO DATE	DEFICIT OR SURPLUS TO DATE	ENCUM-BRANCES	FREE BALANCE
Salaries and wages, $							
Materials and supplies, $							
Traveling expenses, $							
Postage, telephone and express, $							
Printing and binding, $							
Rent, $							
Repairs under contract, $							

Newspaper advertising, $							
Light, power, water, $							
Subsidies, $							
Equipment, $							
Lands and buildings construction under contract, $							
Other items, $							
Reserve, $							
Totals, $							

This report includes all vouchers drawn to date including vouchers numbered _____ and all encumbrances to date.

FOR THE DIVISION
DATE _____
FOR THE DEPARTMENT
DATE _____
DIRECTOR OF FINANCE
DATE _____

APPROVALS

TITLE _____

TITLE _____

PER _____

in the total space at the bottom of the sheet. In the second appear the payments chargeable to each. It is titled, "Warrants drawn to date." In the third titled, "Vouchers holding," appear the amounts of the claims for which warrants have not yet been drawn. The fourth column contains the "Total vouchers holding and warrants," the actual claims which have accrued against the several accounts. The fifth column gives the "Allotments to date." The sixth, as explained above, gives the deficit.

The column marked encumbrances requires some comment. This is designed to show the extent to which each account is encumbered. The inventory of the encumbrance voucher file (see page 99), is to be included, but under salaries and wages, the salary still to be paid during the fiscal year to the permanent employees should be included. In addition, every contract for an expenditure, whether expressed or not, should be included here. As a result the last column titled, "Free balance," will be in every sense of the word a free balance—an amount totally available for future expenditure. This column often will indicate the savings. The reserve at the bottom of the titles serves a similar purpose. In the space below the body of the report appears a statement of the vouchers included in the report. This will aid in case an audit is made of the books of any division. It will also aid in reconciling the books of the auditor, of the treasurer, and of the central office. At the bottom blanks are provided for the usual certifications.

The monthly report form used in Illinois[60] differs from the one suggested above in that the amount of vouchers holding is not reported while the amount of bills holding is given. The column titles are: (1) Standard accounts and biennial appropriations. (2) Bills passed to date. (3) Cash balance. (4) Unpaid bills holding. (5) Proportion of biennial appropriation available for use to date. (6) Surplus or deficit. (7) Contracts and orders outstanding. (8) Free balance for remainder of biennium.

Column (2) of the Illinois form, "Bills passed to date," con-

[60] See Form F-4, *Monthly Report* of the Department of Finance of Illinois.

tains the sum of columns 2 and 3 of the proposed form—warrants drawn to date and vouchers holding. On the first of January, 1923, in Pennsylvania, the amount of vouchers holding ran over six millions because the income was not sufficient to meet them. It is because situations of this kind occur and because a governor should be informed of them when they do occur that the vouchers holding are segregated from the bills actually paid in the proposed forms. Column 4 of the proposed form, "Total warrants and vouchers," contains the same information as Column 2, "Bills passed to date," of Illinois. Column 3 of the Illinois form, "Cash balance," has no equivalent on the proposed form. Instead, the actual payments are given in the second column, "Warrants to date." It seems better to give the actual payments than the cash balance, but no really important reason makes either the one or the other the more desirable. With one given, the other can be arrived at by subtracting it from the total appropriation shown in the first column. The proposed form includes bills not yet passed for payment under column 7, "Encumbrances," while the Illinois form shows this amount segregated. In the bulletin of the Department of Finance explaining the monthly reports, instructions are given to exclude from the column all bills not yet ready for passage. The statement is made that normally only bills holding on the last day of the month will be included.[61] But if merely the bills holding because time did not allow their being passed to the Department of Finance for approval, are noted here, it does not seem that the amount of the bills will justify giving it a separate place in the report.[62]

In the Ohio column for "Bills holding," the divisions are expected to place all bills over which disputes have arisen as well as the bills which could not be passed through lack of time. The value of this information is to allow the central office to expedite settlement by bringing pressure in such cases.[63] The quarterly financial report to the governor of Arizona shows

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[61] Illinois, Department of Finance, "Monthly Departmental Reports," in *Finance Bulletin 2*, p. 2.

[62] See Form F-4, *Monthly Report of Encumbrances*, of the Department of Finance of Ohio.

[63] Ohio, Department of Finance, *Financial Bulletin 8*, pp. 7–8.

merely the appropriation totals, the bills paid, the bills holding and unpaid, outstanding contracts and orders and the free available balance. No expenditure schedule amounts are included. By law no department may spend more than a fourth of its appropriations in a quarter except on approval of the governor and auditor. Therefore, the inclusion of sailing chart figures is possibly unnecessary. In Virginia, a *Monthly Statement of Disbursements*, G. O. Form Budget 5, is made to the governor. This shows increases in the appropriations made by the accrual of revenue available directly for expenditure. It also shows the disbursements to date, the unexpended balance, the outstanding orders, contracts and other liabilities, and the unencumbered balance.[64] The Department of Efficiency of the state of Washington uses a rather novel form in watching expenditures.[65] The column headings of this form are: (1) Department, (2) Appropriation, (3) Expended, and then appear twenty-four columns—one for each month of the appropriation period. In these columns the percentages of the several appropriations spent up to the end of the various months are recorded. A form of this type shows very clearly which departments are spending more heavily and rapidly than the size of the appropriation warrants. The Department of Finance and Purchase of Utah keeps a similar record of expenditures. The reports are made on a quarterly basis instead of a monthly. One of these reports is published in the report of the department for 1923.[66] A report of this type shows in a very striking manner which departments are spending more rapidly than the appropriation warrants.

Form F-517, *Monthly Report of Expenditures*, of the Department of Finance of Nebraska, provides for merely a statement of the cash expenditures under each of the account titles. No report of encumbrances appears. Neither is the schedule of expenditures compared with the actual expenditures in the

[64] This information is collected under the authority of Section 4 of the Virginia budget law, Virginia, *Acts*, 1918, 118, which allows the governor to request and receive from the spending agencies any information he may specify regarding offices and activities.

[65] Washington, Department of Efficiency, *Monthly Record of Appropriations and Expenditures*, State Form No. 1333.

[66] Utah, *First Report of the Department of Finance and Purchase*, 1923, p. 00.

report, although a schedule of expenditures is submitted to the department quarterly by all spending agencies.[67]

Report Showing the Relation of Appropriations and Revenues

Form A-10 is suggested to present to the governor the manner in which expenditures and revenue are keeping pace. It shows how closely the budget was balanced at the beginning of the period and warns the governor when a decreasing revenue necessitates curtailment of expenditures. This report is the most important. It reveals the fiscal status in a clean-cut manner, for it is here that income and outgo are reconciled.

The report is made monthly according to funds. In the first column the titles of revenue laws which pour their income into the fund in question are given. In the next are given the actual cash receipts to date. Next follows a statement of the anticipated receipts as estimated at the start of the fiscal period on Form A-3, the revenue schedule. The third column shows the deficit or surplus of receipts. The fourth gives the money receivable—outstanding tax bills, license fees and other receipts. In the fifth column appear any remarks, and at the bottom, the certification. The effect of the statements outlined in this report is to show whether the actual receipts fulfilled expectations and whether the cause of any revenue deficit is the failure to collect the taxes. In such event, pressure may be brought to bear on the tax collectors. A deficit may also direct attention to the necessity of auditing the accounts of the treasurer.

At the bottom of the page in the short report called the "Summary" is reported the actual state of the finances. The first column is used to show total receipts. The next indicates the total allotments made from the several appropriations for expenditure to date. This figure is obtained by totalling the allotment column on all the Form A-9 reports for appropriations made from this fund. The third column shows the manner in which allotments and income balance. The fourth column shows the total vouchers and warrants to date. This figuer

[67] See above, pp. 80–81.

FORM A-10

MONTHLY REPORT OF THE STATUS OF THE _____ FUND

OFFICER MAKING REPORT _____ MONTH OF

TITLE _____ _____

TITLES OF REVENUE LAWS	TOTAL RECEIPTS TO DATE	ANTICIPATED RECEIPTS TO DATE	DEFICIT OR SURPLUS	MONEY RECEIVABLE	REMARKS
					CERTIFICATION I hereby certify that the information on this sheet with the exception of that in the summary below is correct.
Totals					
Totals of other sheets					_____
Grand totals					_____ DATE

SUMMARY

(To be filled out by the Director of Finance)

TOTAL RECEIPTS	ALLOTMENTS TO DATE	DEFICIT OR SURPLUS OF RECEIPTS	TOTAL VOUCHERS AND WARRANTS	DEFICIT OR SURPLUS OF RECEIPTS	WARRANTS	CASH BALANCE

is taken from the Form A-9 reports. The total vouchers and warrants are balanced against receipts in the fifth column which shows the deficit or surplus of receipts. The sixth column indicates the cash actually paid from the fund. The last column indicates the cash balance. This last must tally with the balances as shown in the treasurer's books for each period. A deficit is indicated by a red line under either the third or fifth columns. A red line under the third column indicates nothing very serious. It does show, however, that future expenditures must be cut or that additional pressure must be placed on the tax gatherers. A red line under the fifth column is extremely serious. This indicates that the receipts are not sufficient to balance current obligations. It is this column which is the danger zone, and a red line here is an urgent warning that a financial storm is brewing. The governor must pay the strictest attention to any fund report showing a storm signal in this particular area.

This concludes a description of a model controlling scheme and of the systems used in the states where control has gone farthest.

The ultimate effect of the adoption of a scheme of this type must be good. It is difficult to prove that the installation of a controlling system in the several states is the direct cause of the increase in administrative efficiency which followed. Other factors enter to complicate the matter. In the administration of Governor Lowden in Illinois—the administration in which a controlling organization was introduced in that state—expenses were cut by a third. But the adoption of a budget system was coincident with the adoption of this new type of control. Furthermore the governor is an excellent administrator, and even without reforms of the type described in this thesis, saving would have occurred. In California, the administrative ability of Governor Johnson makes it difficult to state that the adoption of the controlling system was the primary factor in the betterment of state administration there.

Certainly, however, the adoption was an important factor. Or rather, it is better to state that the systems of control were the tools used in securing efficient government. For the controls just outlined give an administrator, in the first place,

information. They are psychologically valuable in removing the unknown. Their operation allows definite knowledge regarding state finances to be laid on the governor's desk at any minute. And such knowledge removes the fear of action which comes when information is cut off. From an administrative viewpoint they are valuable. The way to remedy many governmental weaknesses is clearly indicated by the expenditure reports. Moreover, means to secure honesty are provided through the authority to check every expenditure. The value of the check depends on the vigor and vigilance which the governor instills in the auditors, but the machinery for the check is at hand. One point merits statement. The adoption of the system forces the division and bureau heads to review their work before the allotment forms—the expenditure schedule forms, A-2—may be filled. Conscious viewing of future activities —conscious looking backward and forward—is necessary before these forms may be filled. The result must be bettered government. Furthermore, the system gives a real intelligence test to the several department and bureau heads. A certain amount of mental capacity is required for operating the system. Those who have not the ability to fill forms A-1 and A-2, for example, probably are not capable of the responsibilities of the positions which they hold.

A system of this type lets light into the dark places, forces constant application to the work of governing, and gives the supreme executive a lever to force better administrative service. Such are its claims for a place in an administrative scheme.

Summary

A fundamental idea in contemporary politics is that successful government is dependent upon a concentration of leadership and of responsibility in a single executive. A corollary of this idea is the desirability of an executive budget. Both the ideal and the corollary have been almost universally accepted by the leaders in political thought. Dr. Frederick A. Cleveland and Dr. Arthur Eugene Buck in the *Budget and Responsible Government*,[1] Director W. F. Willoughby in the *Movement for Budgetary Reform in the States*,[2] Mr. Walter F. Dodd in *State Government*,[3] Professor John Mabry Mathews in *Principles of State Administration*,[4] and Dr. Edward A. Fitzpatrick in *Budget Making in a Democracy*[5] all state in certain terms the principle that better government will result from broadening the scope of the chief executive's power and at the same time increasing his responsibility.

This thesis builds on these principles. It does this by describing practical solutions for the technical problems involved in making executive leadership and accountability effective. The problem attacked here has been that of providing machinery for carrying into effect accepted principles rather than of announcing new ones.

The model system of accounts is so designed as to allow reasonable freedom for the executive in case the legislature should attempt to segregate the appropriations. It is also designed to throw into prominence expenditures which are of a doubtful nature and to show clearly the relationship between the various expenditures. These factors aid in making the executive a leader by permitting him to follow readily the financial activities of his administration. The same factors aid in securing from the governor strict accountability. In outlining the system for routine control the principles were carried into greatest effec-

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[1] See in particular the first four chapters.
[2] See pp. 2–4.
[3] See pp. 264 ff.
[4] See p. 385.
[5] See pp. 38–62.

tiveness. The ideal constantly kept in mind was that of securing for the governor the reins with which the administration might be guided. A series of routine reports showing in a condensed manner a record of passed and proposed transactions was united with the power of approving both. The effect should be to secure for the governor complete control over finances and administration and to enable him to carry out the plans which the machinery in the second chapter allows him to propose.

Another principle which has been embodied in this volume is the necessity of making administrative machinery simple. The test of utilitarianism has been stressed in evaluating the types of controls adopted in the states. The ability of a person to grasp more than a limited number of facts in a given time has determined in large measure the detail to which forms and accounts have been carried. Only parts of the machinery which were completely essential to operation have been included in proposed control *media*. And the machinery used in the states has been consistently criticized from the criterion of complexity. For example, in considering the reporting of information, the ideal of simplicity was carried to considerable lengths. It was decided that the number of account titles should be few. And that a major and a minor series should be provided in order to accommodate the legislature and the budget officials who needed information with detail carried to varying degrees. Furthermore, a guiding principle was the elimination of "twilight zones." In addition, accounts to which expenditures of a doubtful nature might be charged were to be placed in conspicuous positions. Lastly, detail in subdividing the accounts and technical accounting terminology were to be avoided. Measures of this type tend toward the elimination of confusion and the introduction of simplicity in administration. In order that recording the information might be as simple as possible, the Illinois and Ohio voucher registers, ordinary disbursement journals with extension columns, were suggested as completely filling the need for a permanent record.

In considering budget making, likewise, the necessity for simplicity was emphasized. A classification of expenditures

according to character was eliminated by creating a classification of expenditures by object, which in itself classifies according to character. Classification of expenditures according to activity was eliminated by suggesting that the budget be made by the minor organization units in the government. The only expenditure classifications suggested, therefore, were by bureaus and divisions of spending agencies and by objects purchased.

The estimate blanks suggested were reduced to four—one for salaries and wages, another for lands, buildings and construction, another for all the other accounts, and the last for use as a recap sheet. This was a suggestion tending toward simplicity. Simplicity likewise was sought for in considering methods of correlating the information. Basing the budget on funds, showing graphically the increases, presenting the appropriations and revenues in single statements, are all in accordance with the simplification of a usually complicated subject. The system for routine fiscal control is certainly simple. It consists of merely three main divisions: the production of expenditure schedules or sailing charts, the approval of vouchers, and the presentation of monthly reports showing the exact financial status.

The benefits which should flow from a scheme of budgetary control are a balanced fiscal program—balanced as to revenue and appropriations, balanced as to the extent to which the various activities of the government are supported. The benefits from routine control are the elimination of deficits, the creation of a check on waste and dishonesty, and the gathering of information essential to administrative supervision.

This concludes the study of financial control in the states. The fundamental characteristic of the proposed system, as well as of most of those in operation, is simplicity. The fundamental tenet on which most of those in use and on which the one proposed rests is the desirability of placing faith in the chief executive.

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